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Nestor Healthcare Group plc

Annual Report and Accounts 2003

A leading and valued partner in UK health and social care since 1948

Nestor Healthcare Group plc

Contents

Personnel Division

Turnover

	2003 £m	2002 £m
BNA	164.4	206.0
Grosvenor Group	95.3	81.6
Medical Services	29.2	15.1
Others	10.4	7.0
Total	299.3	309.7

British Nursing Association (BNA) is the UK's leading provider of nursing and care professionals to a wide range of health and social care customers.

The Grosvenor Group of companies concentrates on providing specialist nursing and care to the NHS and to Local Authority Social Services. It also provides temporary residential care services for the elderly and those convalescing in their own homes.

The Medical Services group of companies is a major supplier of GPs, hospital doctors and allied health professionals to the NHS and the private sector.

Carewatch is the UK's leading franchised domiciliary care provider. It provides a variety of services to people needing care and support in their own homes, either directly to the individual or via Local Authority Social Services Departments.

Services Division

Turnover

	2003 £m	2002 £m
Primecare Primary Care	72.2	64.6
NDA	30.9	34.2
Primecare Forensic Medical	14.6	13.6
Others	6.2	60.6
Total	123.9	173.0

Primecare Primary Care is the leading provider of GP and other out-of-hours services to the NHS. The services are delivered via clinical response centres, primary care centres and, where required, by a home visit.

Primecare Forensic Medical provides primary care services to Police Authorities and secure establishments including prisons, immigration and detention centres, and young offender institutions within both public and private sectors.

Nestor Disability Analysis provides doctors for domiciliary screenings or temporary support to the Benefits Agency Medical Services of the Department of Work and Pensions.

Financial Highlights

- Results reflect considerable investment in both operating divisions
- Group's major markets in NHS hospitals and Primary Care have seen important changes
- Personnel Division achieved excellent results increasing operating profit by 28% and margin to 9.8%
- 24 homecare businesses acquired to accelerate growth in this strategically important sector
- In the Services Division, Primecare Primary Care achieved 12% growth in turnover whilst establishing the Clinical Response Centre structure

* before goodwill amortisation of £8.4m (2002: £7.6m, 2001: £3.8m) and exceptional costs of £nil (2002: £18.1m, 2001: £4.6m) – FRS 3 operating profit is therefore £20.4m (2002: £11.6m, 2001: £17.1m).

\+ before exceptional loss of £2.7m (2002: gain of £0.8m, 2001: £nil).

In the Chairman's Statement, the Operating Review and the Financial Review, results are stated before goodwill amortisation and exceptional items. These items are discussed in the Financial Review. The statutory results are: operating profit £20.4m (2002: £11.6m, 2001: £17.1m); pre-tax profit £13.6m (2002: £8.1m, 2001: £15.5m); and earnings per share 10.51p (2002: 2.33p, 2001: 11.55p).

Chairman's Statement

2003 has been a challenging year for Nestor. In addition to managing major internal projects, we have seen important changes in both the NHS hospital environment and the Primary Care marketplace in which we operate, and we also dealt with the unsolicited approach to acquire the Group. Despite this, our results for 2003 are in line with the expectations described to shareholders in December.

Summary of results

	2003 (£m)	2002 (£m) (Restated)
Statutory results		
Turnover	423.2	482.7
Profit before tax	13.6	8.1
Earnings per share	10.51p	2.33p
Business performance		
Profit before tax	24.7	33.1
Earnings per share	23.17p	29.90p

Statutory results are stated after goodwill amortisation and exceptional charges of £8.4m (2002: £7.6m) and £2.7m (2002: £17.3m) respectively. Business performance results, which are used throughout this statement, exclude goodwill amortisation and exceptional charges and reflect the manner in which the business is monitored.

Business performance profit before tax for the year ended 31 December 2003 was £24.7m, compared to £33.1m in the previous year, which benefited from a contribution of £11.8m from the MAP contract, which ended in 2002. Earnings per share of 23.2p (2002: £29.9p) benefited from a lower tax charge for the year of 18% (2002: 21%) following the legal restructuring completed in 2002. This benefit has now ceased and the ongoing tax charge is expected to increase to approximately 30%.

Cash flow from operations totalled £25.0m (2002: £54.1m) as tight controls on working capital were maintained. The combination of the acquisition programme spend of £29.5m and gross capital expenditure of £9.9m, largely associated with Primecare Primary Care's Clinical Response Centres, led to an increase in borrowings to £89.3m at the end of the year (2002: £59.8m), comfortably within the Group's facilities.

Dividends

The Board is recommending a final dividend per share of 6.14p making total dividends per share for the year of 9.62p, unchanged from the previous year.

Summary of performance

Personnel Division

Despite challenging trading conditions the Personnel Division achieved excellent results:

- Turnover £299.3m (2002: £309.7m);
- Operating profit increased 28% to £29.4m (2002: £22.9m);
- Operating margin 9.8% (2002: 7.4%).

Businesses acquired in 2002 and 2003 contributed turnover of £36.6m (2002: £3.9m) and operating profit of £7.5m (2002: £0.8m). In addition to the effect of acquisitions, the improved operating margin reflects not only the loss of a number of low margin, high volume NHS contracts, but also the benefits of tight cost control and the positive impact of BNA's project to reduce transaction costs and administration workload. This project was completed on schedule and will now be extended to the Grosvenor branch network.

Services Division

The division achieved much in 2003 in creating the platform for growth in out-of-hours services to patients of GP practices through the consolidation of call centres into two new Clinical Response Centres. However, whilst the strategic position of the business has been significantly

In 2003, we have seen important changes in both the NHS hospital environment and the Primary Care marketplace in which we operate.

enhanced during the year, the scale and complexity of the migration to the two Clinical Response Centres undermined the financial performance in 2003:

- Turnover £123.9m (2002: £173.0m);
- Operating loss £0.6m (2002: profit £14.4m).

The division's result in 2002 benefited from a profit contribution after central costs of £11.8m (on turnover of £47.9m) from the MAP contract. As announced at the Interim results stage, profits in 2003 were enhanced by the release of a £0.8m balance sheet provision established at the end of 2002 in respect of the MAP contract.

Acquisitions

Acquisitions of homecare providers and businesses providing specialist services are a key part of the strategic development of the Group. In 2003, we completed twenty-six acquisitions, at a total cost of up to £37.9m, of which up to £6.75m is deferred and we intend to continue the programme in 2004.

Clinical Governance

Under the leadership of Dr Bill Holmes, the Group Medical Director, we continue to develop our policies for identifying and managing clinical risk. This process is overseen by a separate Clinical Advisory Board comprising a number of eminent, independent healthcare practitioners. Significant issues are reported to the main Board on a regular basis. The time and effort involved in monitoring our performance represents a significant cost to the business, but we consider the information generated to be an important tool in controlling clinical risk, and ensuring we satisfy our statutory and regulatory responsibilities. We believe shareholder value is enhanced by meeting these important criteria with the extent and quality of our processes far exceeding the norm for our marketplace.

Unsolicited offer

In early July 2003, the Board announced the receipt of an unsolicited offer for the Group. The process, which was terminated on 26th September 2003, was conducted thoroughly and properly under the stewardship of a Committee of the Board with advice from N M Rothschild and our brokers UBS, but did not result in the receipt of an offer which the Board believed represented fair value for shareholders. Management time and effort involved in servicing the process was very significant, and costs of £0.4m incurred with external advisors are included in 2003's result.

Board changes

There have been a number of changes in the composition of the Board during 2003 and since the year-end. The appointment of Martyn Ellis as Group Finance Director on 1st May was noted in the Chairman's statement in last year's report.

When I was appointed Chairman of Nestor in October 2003, I replaced Antony Beevor. Since then Tim Harris and David Howell have resigned and Robert Nicholls has retired from the Board. The Board thanks each of them for their contribution to Nestor through a period of significant change.

In January 2004 the appointment of two new independent non-executive directors, Sir Andrew Foster and Roger Dye, was announced.

Sir Andrew Foster served as Chief Executive of the Audit Commission for

England & Wales between 1992 and 2003. He was previously Deputy Chief Executive of the NHS and a Director of Social Services. Sir Andrew will act as Senior Independent Non-Executive Director and Chairman of the Remuneration Committee and has also joined the Audit and Nominations Committees.

Roger Dye, a chartered accountant, has been Finance Director of the Davis Service Group since August 2000. Roger has extensive experience on the Boards of public companies, having been Finance Director of four plcs since 1987. In addition to serving on the Remuneration and Nominations Committees, he will also be Chairman of the Audit Committee.

These appointments provide the Board with the correct balance of expertise and experience to direct the business and to ensure the appropriate standard of governance.

Staff

Last year saw changes for many employees of the Group as major projects were undertaken to reshape our operations in response to market demands. In addition all staff were subject to the uncertainty caused by the unsolicited offer, which overshadowed the business for much of the summer. Despite this the professionalism and enthusiasm demonstrated by our staff was unflagging and remains an essential asset to the Group. We are also an organisation charged with the provision of the highest standards of care both towards patients and clients. The dedication and concern shown by all our staff lies at the heart of our business and is central to its future.

Outlook

In the Personnel Division we will continue our development programme to grow our Homecare business. This reduces our dependency on the NHS as the significant changes being effected cause us to be cautious about our medium term prospects in this marketplace.

The challenge in the Services Division is to convert the excellent strategic position of Primecare Primary Care into a satisfactory financial return. The long-term prospects are clear, and whilst we expect to make progress in 2004, that progress will be influenced by the pace of transition of our customer base from GPs to PCTs.

John Rennocks, Chairman
1st March 2004

John Hutton, Minister of State for Health, opening Primecare Primary Care's Birmingham Clinical Response Centre in December 2003.

Primecare's two centres in Birmingham and Sheffield are handling calls from over 5 million people nationwide and represent a £12 million investment. The Minister commented "commercial healthcare providers such as Primecare have an important role to play alongside NHS services".

Personnel Division

Despite challenging trading conditions, the Personnel Division achieved excellent results in 2003.

Personnel Division

Nestor's Personnel Division comprises British Nursing Association, the UK's number one general nursing and care agency, Grosvenor Group and other businesses focused on healthcare staffing and delivery of social care services to a UK-wide client base including NHS Trusts, Local Authorities, nursing homes and private patients.

The adverse changes in the NHS marketplace experienced in 2003 emphasise the importance of our strategy to develop our homecare and other specialist activities.

Acquisitions completed in the second half of 2002 and during 2003 have generated excellent returns. The majority are small homecare providers, which are geographically complementary to the existing network. In addition a number of successful acquisitions have been made in specialist services: Cornelle and Holt with locum doctors; Patricia White providing live-in companions; and Pinnacle supplying podiatrists.

The contribution from 2002 and 2003 acquisitions in the 2003 results are:

- Turnover £36.6m (2002: £3.9m);
- Operating profit £7.5m (2002: £0.8m);
- Operating margin 20.5% (2002: 20.5%).

Excluding these acquisitions the underlying performance of the Personnel Division is:

- Turnover £262.7m (2002: £305.8m);
- Operating profit £21.9m (2002: £22.1m);
- Operating margin 8.3% (2002: 7.2%).

Across the division, total NHS turnover declined by 16% from £176.4m in 2002 to £147.4m as the impact of NHS Professionals (NHSP) increased and regional framework agreements were introduced. Overall, approximately £40m of turnover was lost in this sector, mitigated by the turnover acquired with some businesses in Medical Services, which is not subject to the same pressures as in nurse agency staffing. As announced in December 2003 BNA had, earlier in the year, won a major nursing supply contract with a leading NHS trust to replace NHSP. Unfortunately we were not allowed to proceed with the implementation of that contract, the implications of which led to us to become much more cautious in our expectations of securing other similar contracts and renewing our existing high volume contracts with the NHS.

In addition, towards the end of the year, pricing structures implemented under the NHS's new regional framework agreements began to impact negatively on margins and also had the unexpected effect of reducing volumes. Accordingly, we have assumed in our budget for 2004 that the combination of the continued roll-out of NHSP and the imposition of the framework agreements will continue to influence this part of our business and reduce both the activity and margin achievable in 2004. However, we shall continue to seek to work with our NHS trust customers – some of whom we have served for a number of decades – and with NHSP, to support the provision of flexible staffing solutions right across the NHS.

In Homecare, turnover grew by 24%, from £80.6m to £100.2m with total activity now representing more than 50% of the Personnel Division's hours. Carewatch, our Homecare franchising operation, performed particularly well, increasing its activity by 20% in the year.

In 2002, we commenced a programme of acquisitions of small businesses, mainly in the Homecare sector, completing 11 in the second half of the year. In 2003, we completed a further twenty-six such acquisitions and intend to continue the programme in 2004.

Businesses acquired in 2002 and 2003 in the Homecare sector contributed £21m of turnover and continued to show encouraging growth.

The barriers to enter and to remain in this sector continue to grow, with increased regulation through the National Care Standards and the introduction of enhanced Criminal Records Bureau checks for all care staff – we expect to spend at least £2.3m in 2004 for carer training alone. In addition, we continue to roll out across the division Nestor's clinical governance programme, which we believe is unrivalled in the industry and gives us further competitive advantage over our rivals.

The strategy to develop our homecare activities will continue to evolve in 2004 and we expect the higher contribution from these, and new acquisitions, will offset the probable further turnover reductions in the NHS acute sector.

Turnover in other market sectors was broadly in line with the previous year at £51.7m (2002: £52.7m) with a reduction in the Nursing Homes sector being offset by gains in the Forensic Health and Private Hospital markets. Businesses acquired in 2002 and 2003 contributed £16m of turnover to these sectors.

Within the Division, BNA was hit hardest by the influences affecting the NHS marketplace but the other operating businesses made good progress in the year.

At BNA turnover was down 20% at £164.4m (2002: £206.0m) mainly due to the impact of NHS Professionals. Operating margins were unchanged from the previous year as the exit from lower margin NHS contracts was offset by the cost of change as the business was restructured and new systems implemented to reduce the administrative burden on the branch network, allowing the business to focus on servicing the customer's needs.

Grosvenor Group had another successful year. Turnover increased 17% to £95.3m (2002: £81.6m) mainly as a result of the successful integration of homecare businesses under the Medico Homecare brand.

Other Personnel businesses also had a very successful year. Turnover increased by 79% to £39.6m (2002: £22.1m), with significantly enhanced margins. This mainly reflected strong growth in Carewatch, our franchised homecare provider and the very successful acquisitions in the specialist Medical Services sector, most notably Cornelle acquired in 2002 and Holt Medical Recruitment acquired in September 2003.

Services Division

The division achieved much in 2003 in creating the platform for growth in out-of-hours services to patients of GP practices through the consolidation of call centres into two new Clinical Response Centres.

Services Division

The Services Division comprises Primecare Primary Care, the UK's largest provider of out-of-hours services to GPs; Primecare Forensic Medical (Primecare FMS), delivering care in secure environments and Nestor Disability Analysis (NDA), providing screening services for the Benefits Agency. All the businesses in the division provide primary care delivered by doctors, nurses and allied healthcare professionals.

For comparison purposes the effect of the MAP contract on both 2003 and 2002 performance is excluded from the following figures:

- Turnover £123.9m (2002: £125.1m);
- Operating loss £1.4m (2002: profit £2.6m);

The decline in the result of the Services Division is due to Primecare Primary Care. Turnover growth of 12% to £72.2m (2002: £64.6m), through the implementation of significant price increases, was outstripped by the cost of the investment in both people and technology needed to comply with the quality requirements of the Carson Standards.

2003 was a year of enormous change and development for Primecare Primary Care, with 22 of the company's 29 branches transferring their call-handling capabilities to the two state-of-the-art Clinical Response Centres (CRCs) in Birmingham and Sheffield.

The project was significant in operational and human resources terms as well as financial; over 700 new positions have been created, mainly in the CRCs, to answer the 420,000 calls that are received, on average, every month, whilst the branch network saw a commensurate reduction in operator numbers. Substantial completion of the migration project has now established a stable cost base and a platform from which to drive quality of service and the most efficient use of clinical resource. Already, the centralisation of call handling has enabled us to establish a Central Triage Pool – a national pool of clinicians who, using decision support and recording software, are able to give clinical advice over the telephone to patients anywhere in the country. The quality and flexibility benefits provided by this pool were enhanced further during the year by the launch of Home Teleconsulting allowing clinicians to log into the Primecare network and provide clinical advice from their own homes. These innovations have already proved the benefits in terms of quality and cost-efficiency of centralising the call-handling and provision of clinical advice over the telephone to the two CRCs; Primecare Primary Care is now regularly achieving quality standards in line with the Carson Standards

One of the key drivers for undertaking this significant project in 2002 was the introduction of the new GP contract. The revised GP contract, finalised in June 2003, enables GPs to transfer responsibility for out-of-hours primary care to their local Primary Care Trust (PCT). A BBC survey of GPs reported that 83% plan to opt out. This would mean that our traditional customer base of GP practices would be replaced by PCTs, much larger purchasers who place significant store

by the achievement of industry clinical standards and with sufficient budgets to pay for a quality service.

Whilst the final date for transfer of responsibility is 31st December 2004, it is anticipated that certain PCTs will elect to control the provision at an earlier date during the year. The shift in our customer base from individual GPs to the supply to PCTs is positive for our business and our contacts with PCTs are increasing.

We are already seeing a significant increase in the pipeline of new business opportunities. However many PCTs are yet to plan for the significant responsibility they will inherit during the year and there is likely to be a delay in their decision-making as to how to fulfil their new obligations. It remains difficult to predict at this stage to what extent this transition will affect our performance in 2004.

Nevertheless, we expect to see margins and profits increase materially as the benefits of enhanced customer service and cost efficiencies flow through into higher market share and increased revenues.

The balance of the businesses in the Division produced profits ahead of last year.

For Primecare FMS, 2003 was a year of significant progress and opportunity. Its turnover grew by 7% to £14.6m (2002: £13.6m). Operating margins have also exceeded expectations with a number of new contracts added and the business currently has a strong sales pipeline.

In July, Primecare FMS began operating a full healthcare service to the Securicor-run Parc Prison in South Wales and now provides healthcare services to 24 prisons, immigration centres and secure training centres. It continued to provide Forensic Medical Examiners and related services to three Police Authorities, receiving over 100,000 calls for clinical assistance.

NDA is the provider of temporary personnel to Atos Origin Medical Services' contract to operate the Benefits Agency Medical Services for the Department of Work and Pensions.

NDA's turnover in 2003 was £30.9m (2002: £34.2m), reflecting a reduction in the backlog of incapacity benefits assessments (from 386,000 in 2001 to less than 40,000 by June 2003). However, the reduction in turnover had little impact on profitability due to the current low margin nature of this contract, which expires in August 2005

Justin Jewitt, Chief Executive
1st March 2004

Financial Review

Group performance

Turnover

Turnover for the Group reduced by 12.3% to £423.2m (2002: £482.7m). Turnover of the businesses acquired during the year amounted to £19.2m. The MAP contract, which came to an end on 31st October 2002, contributed £47.9m of turnover to the Services Division in 2002. Excluding this contract, Group turnover in 2002 was therefore £434.8m.

In the Personnel Division, turnover fell by 3.4% to £299.3m (2002: £309.7m). This was the result of growth of 24.3% in homecare turnover to £100.2m (2002: £80.6m) offset by a fall of 16.4% in NHS turnover to £147.4m (2002: £176.4m) and a fall in other turnover of 1.9% to £51.7m (2002: £52.7m). On a like-for-like basis, turnover was down approximately 14%.

In the Services Division, turnover reduced by 28.4% to £123.9m (2002: £173.0m). Excluding the MAP contract, turnover reduced by 1.0%.

Operating profit and margins

The Group's operating profit, before goodwill amortisation and exceptional items, reduced by 22.8% to £28.8m (2002: £37.3m). Excluding the MAP contract and the e-Health business which have both ceased, operating profit in 2003 was £28.1m (2002: £27.1m) up 3.7%.

The Group's operating profit margin before goodwill amortisation and exceptional items reduced to 6.8% (2002: 7.7%). Excluding the MAP contract and e-Health, the operating profit margin increased to 6.6% (2002: 6.2%).

Operating profit (before goodwill amortisation and exceptional items) of the Personnel Division was up 28.4% to £29.4m (2002: £22.9m). This included a full year contribution from businesses acquired in 2002 and the part-year benefit of acquisitions made in 2003. On a like-for-like basis operating profit was down approximately 1% over 2002. Operating margin increased to 9.8% (2002: 7.4%) reflecting improved gross margins resulting from increased "spot business" and back-office efficiencies as well as the successful integration of higher margin acquired businesses.

The Services Division made an operating loss (before goodwill amortisation and exceptional items) of £0.6m (2002: operating profit of £14.4m). Excluding the MAP contract and e-Health, operating loss in the Division was £1.3m (2002: operating profit of £4.2m). Operating margin reduced to (0.5)% (2002: 8.3%). Excluding MAP and e-Health, the 2003 operating margin in Services was (1.0)% (2002: 3.4%).

Goodwill

Goodwill on the balance sheet at the year end amounted to £161.1m (2002: £138.0m). This increase reflected goodwill on acquisitions made during the year of £34.1m off set by goodwill amortisation of £8.4m and an impairment of the goodwill relating to the Healthcall Optical business of £2.7m following the decision to sell this business.

Exceptional items

At 31st December 2003, the Board had resolved to dispose of the Healthcall Optical business, which forms part of the Services Division. Accordingly the goodwill and assets associated with this business have been adjusted to their expected recoverable values pending its disposal. As a consequence, a loss of £2.7m on the disposal of a subsidiary undertaking has been recorded in 2003.

Pre-tax profit

Profit before tax, exceptional items and goodwill amortisation amounted to £24.7m (2002: £33.1m), a reduction of 25.4%.

Taxation

The tax charge for the year was £4.4m (2002: £6.1m). The average tax rate on profit, before goodwill amortisation and exceptional items, was 17.6% (2002: 20.9%). The lower average tax rate arose primarily for two reasons. Firstly, tax credits relating to prior years amounting to £1.7m arose mainly as a result of a successful reclaim of tax by the Group relating to under-let properties and adjustments to provisions following the end of enquiry periods for prior year returns. Secondly, a tax credit of £1.5m arose in respect of tax relief claimable on the amortisation of goodwill arising from the group reorganisation undertaken in 2002. Following a change in the legislation in June 2003, no further tax relief will be available in respect of the amortisation of goodwill. Excluding these items the normalised rate is 30% and this is expected to be the effective rate in future years.

Earnings per share

The basic adjusted earnings per share, before exceptional items and goodwill amortisation, were 23.2p (2002: 29.9p) a reduction of 22.4%. This reflects the reduction in pre-tax profit and the higher average number of shares in issue partly off-set by the lower average tax rate. The FRS 3 earnings per share (which is after taking account of goodwill amortisation and exceptional items) were 10.5p (2002: 2.3p)

Cash flow and borrowings

Closing net borrowings for the Group amounted to £89.3m (2002: £59.8m) an increase of £29.5m. Cash flow from operations amounted to £25.0m (2002: £54.1m). A further reduction in debtors, particularly in the Personnel Division, was off-set by a larger reduction in creditors, partly reflecting the timing of creditor payments around year end dates.

Excluding the net effect of acquisitions and sale of businesses and the net cash flow from financing, there was a £0.5m net cash outflow (2002: inflow of £27.5m).

Net capital expenditure was £5.7m (2002: £6.7m) and consists mainly of the investment in the two new Primary Care Clinical Response Centres, the purchase of motor vehicles for staff and the investment in systems hardware and software to support the business. On 1st November 2003, the majority of the Group's car fleet was sold to a leasing company which together with other asset disposals realised £4.2m.

Dividends, interest and corporation tax amounted to a net payment of £17.9m (2002: £17.6m).

The issue of shares raised a net £0.2m (2002: £0.8m).

Equity shareholders' funds

Equity shareholders' funds increased from £87.5m reported in 2002 to £89.0m, an increase of £1.5m reflecting a retained profit of £0.8m, the proceeds from the issue of new shares of £0.2m and an increase in reserves arising from a prior year adjustment of £0.5m. The prior year adjustment arose from the full adoption of FRS 19, Deferred Tax. An additional deferred tax asset of £1.7m was recognised and arose primarily on the acquisition of a subsidiary with a corresponding decrease of £1.3m in goodwill. The balance of

£0.4m has been adjusted to opening reserves. In line with the reduction in the value of goodwill, the prior year's goodwill amortisation charge has been reduced by £0.1m with a corresponding increase in opening reserves.

Acquisitions

26 new businesses were acquired during the year for an aggregate purchase consideration of £35.9m plus costs of £1.2m. In addition, the Group acquired the remaining 49% of Cleveland Healthcall Services Limited that it did not own for £0.7m.

The aggregate cash outflow in respect of acquisitions in the year was £29.5m.

Goodwill arising on the year's acquisitions amounted to £34.1m.

In line with FRS10, the Group's policy has been to capitalise goodwill on acquisitions made since 1998 and to amortise over their useful lives, all of which have been estimated at 20 years.

Pensions

In accordance with FRS17, Retirement Benefits, the Group is required to compare the market value of its two deferred benefit pension funds' assets at the year end with the actuarial liabilities of those funds. At 31st December 2003, the pension funds' assets amounted to a total of £19.7m (2002: £14.7m) compared with total liabilities of £35.4m (2002: £27.5m), a net aggregate deficit of £15.7m (2002: £12.8m) of which £4.4m (2002: £4.7m) relates to the formal valuation of the Healthcall Scheme at the date of acquisition and which was recognised as a liability and treated as a fair value adjustment. In accordance with the transitional arrangements of FRS17, the remaining deficit of £11.3m has not been recognised on the balance sheet. The £4.4m liability is being met by future annual payments of £500,000 and the remaining £11.4m deficit is being met by higher employer contributions in the case of the Nestor Scheme and future contributions to be determined at the next actuarial valuation of the Healthcall Scheme.

Treasury management and financial instruments

Financial instruments include all assets and liabilities of a financial nature such as cash, loans, finance leases, overdrafts and long term liabilities. All such instruments play an important part in the operations of the company to enable it to operate smoothly and efficiently and to pay its obligations as they fall due. They also enable the company to fulfil its investment strategy including making appropriate acquisitions. The company's objective is to use financial instruments to minimise the cost of capital at an acceptably low financial risk and to maximise flexibility to take advantage of investment and acquisition opportunities as they arise.

The Group is primarily a UK Healthcare business and does not have significant exposure to foreign exchange risks. Nevertheless the Group's strategy is to hedge its foreign exchange exposure where it arises with foreign currency loans or forward exchange contracts as appropriate.

The main risks arising from the Group's financial instruments are interest rate and liquidity risks. The Board considers each of these risks on a regular basis and the Group's stance towards each of these risks has remained unchanged.

The Group currently has in place £95.0m of committed borrowing facilities at a margin of 0.75% above LIBOR and due for repayment in 2006. In addition, uncommitted overdraft facilities of £15.0m were renewed during the year. At the end of the year, the Group had borrowings less cash of £89.3m (2002: £59.8m) and undrawn committed borrowing facilities of £3.6m. It is, and has been throughout the year, the Group's policy that no trading in financial instruments will be undertaken.

The Group entered into a hedging arrangement in November 2002 which has the effect of fixing £35m of its borrowing within an acceptable range of interest rates for four years.

Controls

Financial and operational controls have continued to be strengthened across the Group. The procedures to monitor and manage key risks have been used throughout the year and enhanced further. The Group's internal audit function is being brought in-house having previously been provided by Deloitte & Touche.

Martyn Ellis, Group Finance Director
1st March 2004

Clinical Governance

The UK health and social care market is increasingly subject to regulation. The key processes adopted by the Group to ensure the quality of the services it provides include "clinical governance", the processes whereby a healthcare provider can ensure and demonstrate that its services are safe and meet externally accepted standards. The Group continues to make good progress in developing our clinical governance structure across all areas of the business, and we are working hard to embed appropriate clinical procedures within our commercial operation, and to foster a culture of openness and responsibility.

All services delivering clinical care, whether in the public or private sector will experience a proportion of adverse clinical events, some of which give rise to complaints. One important measure of the robustness of an organisation providing clinical service, whether in the public or private sector, is its efforts to identify adverse events, and the maturity with which it deals with them. The management of adverse incidents is the most visible element of our governance procedures, and often the standard by which we are judged.

The procedure for dealing with complaints and other adverse events is now well established across the Group. The Board has endorsed a Group Standard (figure 1) to which all businesses in the Group aspire, from which are derived three key performance indicators (KPIs) which are reported to Nestor's Board every month. One of these KPIs, the provision to the complainant of a considered response within 14 days of an issue being drawn to the Group's attention, is an important measure of the success with which we are able to respond in a timely manner to those individual issues which are of concern to our customers. Figure 2 demonstrates how the work undertaken within the Group during 2003 has produced a steady improvement in our performance throughout 2003.

We continue to seek guidance from eminent external colleagues. Our Clinical Advisory Board, which has continued to meet quarterly, steers us on relevant issues in clinical practice, and provides much valued feedback on the structure and performance of our own governance framework. In the last year, we have completed work on our whistleblowing policy, and introduced processes to deal in a constructive and efficient manner with the many "Alerts" issued by the NHS and regulatory authorities.

The time and effort involved in meeting these objectives undoubtedly represents a cost to the business, but we consider they are important tools in controlling clinical risk, and ensuring we satisfy our statutory and regulatory responsibilities. We believe they add shareholder value by meeting those important objectives and contributing to the delivery of an advantage in the marketplace wholly consistent with high quality patient care.

Figure 1: Group Complaints Standard

Nestor Healthcare Group plc – Complaints Standard

We take all complaints seriously, and we value the information about our services which they provide.

We will commit to these response times:

- We will acknowledge your complaint within one working day
- We will provide the details of a named person whom you can contact, and who will be responsible for following up your complaint
- We will provide you with our considered reply within two working weeks
- If our enquiries cannot be completed within two weeks, we will provide you with a progress report every two weeks thereafter until it is resolved

We will help with your complaint

- We won't insist on complaints being made in writing
- We will help you to formulate your complaint, if you wish
- We will help you with any problems which arise from disability or language difficulties

When you have our response, we will discuss it with you

- We will offer a meeting with our Complaints Officer

If you remain dissatisfied with our attempts to address your complaint

- We will offer you a meeting with a senior manager
- We will advise you of where else you may take your concern – for example the Primary Care Trust.

Dr William Holmes,
Group Medical Director

Employees and Social Responsibility

Leadership development

The organisational change that was experienced in 2002 has continued in 2003 as we position the business in response to ever changing customer needs. This has provided significant development opportunities for a wide range of people and has also allowed us to bring new talent and skills into the organisation.

The senior teams have had a strong focus on leadership activity throughout the year with participation in a number of programmes. These programmes are being rolled out more widely across the organisation.

The divisional training teams have been providing a variety of both leadership and skills based programmes throughout the organisation with particular focus on internal processes, change management and technology. A revised education and training policy was developed and issued during the year which sets new standards for the Group in this key area.

In addition to this focus on employee training, "member" training has also seen a high activity level. Much of this has been driven through our recent acquisition of the Suffolk NVQ Consortium. Funding for this activity is constantly being explored through a variety of means and we believe that we are well positioned to meet the requirements laid down under the Care Standards.

In the Services Division, the Flair for Care programme was introduced in 2003 as a pilot for all team leaders in Primecare's Clinical Response Centres.

The aim of the programme is to assist front line managers to make a positive impact on the patient experience by providing them with the skills to manage and motivate their teams of call handlers.

The modular based training programme covers topics such as reviewing quality standards, developing others and working to key performance indicators. Team leaders are required to select a topic at the beginning of the course which will form a work based project. The programme's aim is to achieve a positive effect on the team leaders' working environment.

Employee involvement

The Group believes that involving its employees in all aspects of its business, particularly the economic and financial factors affecting the Group's performance, is crucial to its future success. It is always seeking ways to improve communication across its businesses, both between its central and operational functions and between the various operations themselves.

Established consultative arrangements with elected representatives of employees have been used on an ongoing basis throughout 2003, firstly as an important means of imparting knowledge and information to employees and secondly to facilitate the significant changes that the Group has gone through during the year.

It is the Group's policy to encourage employees to participate in its success, through a variety of performance-related incentive arrangements, including the provision of a savings-related share option scheme.

Internal circulars and newsletters are issued regularly, increasingly through the use of new media to reach our employees

faster and more effectively. The Group has made great strides in upgrading its IT infrastructure that allows even more timely and comprehensive information to reach its employees on a regular basis. Of particular note in 2003 has been the publication, to all employees, of the Group's HR Policies and Procedures.

Diversity

The Group has a wide and varied employee base with high numbers of female employees, many of whom are at senior management level in the organisation, as well as a significant employee base of individuals who come from ethnic minority groupings.

A focus in 2003 has been on recruiting employees with disabilities, particularly in our Clinical Response Centres and we expect to extend this programme further in 2004. An example is the current focus on the potential of employees to work from home in our Primary Care business.

Health and safety

The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters. It recognises its ultimate responsibility for the setting and monitoring of appropriate policies, guidelines and practices in the formal Schedule of Matters Reserved for the Board's consideration. Implementation of proposals following a comprehensive review of safety management in 2002 have been taking place throughout the year and will continue to be rolled out to all businesses including our newly acquired companies in 2004.

The Group's Director of Human Resources is directly accountable to the Chief Executive for overseeing safety matters and is working closely with the Divisional Managing Directors to roll out the revised policies and reporting arrangements. A report of achievement against strategy is prepared for the Board's consideration on a semi-annual basis.

Each of the Group's two divisions have established health and safety committees which met regularly during the year to monitor the implementation of the Group's health and safety strategy across the businesses for which they are responsible. The membership of each committee includes representatives from the Group's health and safety committee, along with managers and HR professionals from the various businesses.

In addition to the above, an ongoing training programme supports the effective implementation of this process, which is based on a comprehensive series of risk assessments and reporting arrangements.

Charity of the Year

As part of its commitment to UK health and social care, the Group asks many of its branches every year to vote for the organisation or charity they would like to support as Charity of the Year.

Throughout 2003, the Group supported fundraising activities on behalf of the Christian Lewis Trust. This is a UK charity supporting children with cancer and their families.

The Group is always looking for new ways in which to involve its employees in the communities in which they are based. A number of successful programmes were run throughout 2003, ranging from dress-down days to quiz nights. It also initiated a number of projects intended to benefit the environment as well as raise funds for charitable causes, such as recycling used toner cartridges. Throughout the UK, the Group's branches regularly support charities pertinent to their own locality or business sector, as well as the Charity of the Year.

Environmental policy

As a service-based organisation, with no manufacturing and limited transportation facilities, the Group's exposure to environmental risk is limited, as is its ability to control the environmental impact of its activities.

However, the Group and its businesses are committed to following the best environmental practices in the day-to-day conduct of their business and the management of their resources and facilities. During the year, the Group continued to refine the formal environmental policy adopted by the Board in 2000 with a particular focus on newly acquired businesses. The policy document, which is directed at minimising the potential impact of the Group's operations on the environment, provides that the Group's Board retains ultimate

responsibility for setting and monitoring its policy on environmental matters.

The policy provides for the promotion of an understanding of environmental consideration across the Group and all managers are directed to encourage staff to follow the good practice outlined in the policy at all times.

The aims of the Group's environmental policy are:

- to take all practical steps to ensure the Group's business activities have the minimum negative impact on the environment
- to achieve the most economic and careful use of sources of fuel and energy
- to minimise the production of waste
- to make the maximum practical use of recycling.

The policy also provides that the Board is ultimately responsible for ensuring that the obligations imposed by all current and future environmental legislation are met.

Responsibility for the co-ordination of the policy throughout the Group rests with the Board, with the Chief Executive having specific responsibility. The policy is administered by the Group's Director of Human Resources with the involvement of the Group Purchasing and Facilities Manager.

Specialist advisors are appointed by the Director of Human Resources as required to ensure that best practice is followed, that the Group is aware of potential opportunities to improve performance and that all legislative and statutory requirements are met.

The directors of the Group's operating companies are responsible for ensuring compliance with the policy. Where appropriate, departmental representatives or co-ordinators have been appointed to act as advisors and a focal point for the dissemination of information and the promotion of initiatives to improve the immediate environment, reducing waste and ensuring that the objectives of the policy are met. Where practicable, materials are recycled and all employees are encouraged to operate the business in as environmentally-friendly a manner as possible.

Ethical matters

The Board has adopted a formal Code of Business Conduct, covering all the businesses in the Group, which consolidated all of the various codes previously applicable to them. The Code provides comprehensive guidelines to all employees and "members" as to the standard of business ethics expected from them as representatives of the Group. It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services offered by Group companies and the needs of their clients.

At the Group's Business Resource Centre in Hatfield, most gifts received by members of staff from suppliers and potential suppliers are auctioned amongst all staff (where practicable) and the proceeds of such auctions are donated to the Group's Charity of the Year.

All senior managers are required to declare, on an annual basis, any hospitality received during the year in their capacity as employees of the Group and to disclose any interests they may have in connected or competing organisations. These declarations are monitored by the Group Company Secretary and reported to the Board at the end of each year.

All Board members are required, once a year, to submit their annual expense claims to the scrutiny of the entire Board.

Emma Thomas,
Group Company Secretary

Board of Directors

John Rennocks
Chairman

(58), joined the Group and was appointed to the Board as Chairman in October 2003. A chartered accountant, he is also non-executive chairman of Diploma plc and holds a number of non-executive appointments in a broad range of companies including Foreign & Colonial Investment Trust plc, Babcock International Group plc and Wagon plc. He was Deputy Chairman of Inmarsat from 1998 to December 2003, when it was sold to private equity investors.

Previously, he was Executive Director, Finance of Corus Group plc between 1999 and 2001, and between 1996 and 1999 held the same position with British Steel plc. From 1989 to 1996 he was Finance Director of Powergen plc and prior to that Finance Director and Company Secretary of Smith & Nephew plc.

He is Chairman of the Board's Nomination Committee and a member of its Audit and Remuneration Committees.

Justin Jewitt
Chief Executive

(49), was appointed to the Board in July 1996 and as Chief Executive in January 1998. He joined the Group in May 1994 as Managing Director of BNA, its largest subsidiary. Previously, he was Managing Director of two BET businesses, prior to which he worked for Mobil Oil and Thorn-EMI. He is an External Professor of the University of Glamorgan and Chairman of its Health Industry Advisory Group. He is also a non-executive director of South Staffordshire Group plc.

Martyn Ellis
Group Finance Director

(47), joined the Group and was appointed to the Board in May 2003. A cost and management accountant, he previously held positions as Finance Director of TeleCity plc, Whitecroft plc, Mann Egerton and Campbell Foods (UK).

Stephen Booty
Managing Director, Personnel Division

(49), was appointed to the Board in June 2002, having joined the Group in January 2002, as Managing Director, Personnel Division. Stephen's previous roles include Chief Operating Officer, Europe at Chep International and senior sales, management and operational roles at Kimberly-Clark and Scott Paper.

Stephen Page
Managing Director, Services Division

(41), was appointed to the Board in March 2001, having joined the Group in November 2000. Previously, he was Managing Director at Priory Healthcare Group plc between 1998 and 2000. Between 1993 and 1998 he was Chief Executive Officer of Oxleas NHS Trust. He has an MBA from the London Business School.

Dr William Holmes
Group Medical Director

(49), was appointed to the Board as a non-executive director in January 2000 and as the Group's executive Medical Director in October 2001. His executive responsibilities include the developing and monitoring of clinical standards and leading a team to provide clinical governance across the Group. He is a Fellow of the Royal College of Physicians of London and a Fellow of the Royal College of General Practitioners. In addition to his corporate responsibilities, he continues to undertake regular clinical sessions in general practice and occupational medicine.

Ingrid Alexander, CBE
Non-executive Director

(52), was appointed to the Board in August 2001. An independent management consultant, she is currently a member of the Kings Fund Grants Committee and was the final Chairperson of the Central Council for Education and Training in Social Work (Residuary Body). She is a former member of the General Social Care Council Advisory Group and the Strategy Group for the NHS Chief Executive's leadership programme and has worked widely with a number of other organisations in the health and social care field. Previously, she was Assistant Director for Resources at Birmingham City Council.

She is a member of the Board's Nomination, Audit and Remuneration Committees.

Roger Dye
Non-executive Director

(52), was appointed to the Board as a non-executive director in January 2004. A chartered accountant, he has been Finance Director of the Davis Service Group since August 2000. Previously, he was Group Finance Director of Transport Development Group plc, Cray Electronics plc and Domino Printing Sciences plc.

He is Chairman of the Board's Audit Committee and serves on its Nomination and Remuneration Committees.

Sir Andrew Foster
Non-executive Director

(59), was appointed to the Board in January 2004. He has had a long and distinguished career in public service, having served as Chief Executive of the Audit Commission for England & Wales between 1992 and 2003. Other previous appointments include Deputy Chief Executive of the NHS and Director of Social Services for North Yorkshire County Council. He is now Deputy Chairman of the Royal Bank of Canada, a non-executive director of the Sports' Council and has recently accepted a range of positions in the public and private sectors.

He is the senior non-executive director and Chairman of the Board's Remuneration Committee. He is also a member of its Nomination and Audit Committees.

Emma Thomas
Group Company Secretary

(37) joined the Group as Group Company Secretary in August 1998. A qualified solicitor, she is also Secretary to the Board's various Committees. Previously, she was Group Company Secretary of Hazlewood Foods plc, Assistant Company Secretary of Kingfisher plc and an assistant solicitor at Richards Butler.

Directors' Report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 2003.

Principal activities, results and future developments
Nestor Healthcare Group plc is the holding company of a group of companies in the healthcare sector. Its principal activities are organised into two divisions, the Personnel Division and the Services Division. These comprise:

- the provision of nurses and carers, locum doctors and other medical personnel;
- the provision of GP and other out-of-hours services to the NHS;
- the provision of medical staff to the Benefits Agency Medical Services;
- the provision of home and social care personnel and services through a network of company owned and franchise branches across the UK; and
- the provision of healthcare and related services to Police Authorities and secure institutions.

The Chairman's Statement, Operating and Financial Reviews on pages 2 to 14 provide a report on the Group's activities, trading results and future developments.

Results and dividends
The profit attributable to shareholders was £9,202,000 (2002: £2,031,000, restated). An interim dividend of 3.48 pence per ordinary share was paid to shareholders on 17th October 2003. The directors now recommend a final dividend of 6.14 pence per ordinary share, to be paid to shareholders on 4th June 2004. Following payment of all dividends for the year, totalling 9.62 pence, the profit of £775,000 will be transferred to the Group's reserves.

Directors
The directors who served during the year were Ingrid Alexander, Stephen Booty, Martyn Ellis, William Holmes, Justin Jewitt, Stephen Page, John Rennocks, Antony Beevor, Timothy Harris, David Howell, David Lyon and Robert Nicholls.

Martyn Ellis was appointed as a director on 1st May 2003 and John Rennocks was appointed as an independent director and Chairman of the Board on 1st October 2003. David Lyon resigned as a director on 1st May 2003, Antony Beevor resigned as Chairman and as a director on 1st October 2003, David Howell resigned as a director on 28th October 2003 and Timothy Harris resigned as a director on 3rd November 2003. Robert Nicholls retired from the Board on 19th January 2004; Roger Dye and Sir Andrew Foster were appointed as independent non-executive directors on the same date.

In accordance with the Articles of Association, John Rennocks, Roger Dye and Sir Andrew Foster will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election. Ingrid Alexander and Justin Jewitt will retire by rotation and, being eligible, will offer themselves for re-election.

John Rennocks, Roger Dye, Sir Andrew Foster and Ingrid Alexander hold office by virtue of letters of appointment with the Company, further details of which are provided on page 28 in the Remuneration Report. Justin Jewitt has a service agreement with the Company, further details of which are provided at page 28 in the Remuneration Report.

Directors' interests
All directors' interests, including details of shareholdings, are set out in the Remuneration Report of the Board on pages 25 to 31.

Substantial shareholdings
At the date of this report the Company has been notified of the following material interests of 3% or more and non-material interests of 10% or more in its ordinary share capital:

	Number	Percentage of issued share capital
Schroder Investment Management Limited	14,396,546	16.43%
Scottish Widows International Partnership Limited	2,800,988	3.20%
Barclays plc	2,690,336	3.07%
Wanger Asset Management	2,754,400	3.14%

Details of the authorised and issued share capital of the Company during the year ended 31st December 2003 are given in note 23 to the financial statements.

Annual General Meeting – special business

The Annual General Meeting of the Company will take place at Primecare Primary Care's Clinical Response Centre, Unit W, Sheffield Airport Business Park, Europa Link, Sheffield S9 1XU on Thursday, 27th May 2004 at 12.00 noon. The notice of the Annual General Meeting may be found in the Notice of Meeting accompanying this Report. In addition to the routine business of the meeting, the following special business will be transacted:

- Directors' authority to issue shares (Resolution 10)
  The Companies Act 1985 ("the Act") prevents directors from allotting unissued securities without the authority of shareholders. In certain circumstances this could be unduly restrictive. The proposed resolution will give the directors a general authority to issue shares of the Company for cash, within certain constraints, without complying with the statutory pre-emption procedures. The total number of relevant shares that the directors will have the authority to allot will be 8,300,000 ordinary shares of 10p each (representing 9.5% of the share capital currently in issue). The directors have no present intention to exercise this authority (except in relation to the allotment of shares under the Group's share option schemes). The authority in Resolution 10 will expire at the conclusion of the next Annual General Meeting or on 27th August 2005, whichever is the earlier.

- Restricted disapplication of pre-emption rights (Resolution 11)
  The proposed special resolution will give the directors a limited authority to issue equity shares for cash other than to existing shareholders in proportion to their existing shareholdings notwithstanding the pre-emption provisions of Section 89 of the Act. This limited authority would allow the directors to make such issues provided they do not exceed in aggregate an amount equal to 5% of the issued share capital of the Company. The resolution also contains provisions enabling the directors to take action to overcome certain practical difficulties that could arise in the case of a rights issue. The authority in Resolution 11 will expire on the conclusion of the next Annual General Meeting or on 27th August 2005, whichever is the earlier.

- Purchase by the Company of its own shares (Resolution 12)
  The directors consider that it would be advantageous for the Company to renew for a further year the existing authority granted at last year's Annual General Meeting, to allow the use of the Company's available cash resources to acquire its own shares in the market for cancellation. This authority is granted pursuant to Section 162 of the Act.

  Accordingly, a special resolution is proposed to authorise the purchase in the market of up to 10% of the issued ordinary shares of the Company at a price of not more than 105% of the average of the middle market quotations for the ordinary shares of the Company (as derived from the London Stock Exchange Daily Official List) for the ten business days prior to the date of purchase.

  The directors do not intend to exercise the Company's power to purchase its own shares other than in circumstances where they consider this to be in the shareholders' interests and where this would result in an increase in earnings per share. They have no present intention to exercise this authority.

Charitable and political donations

No political donations were made during the year (2002: £nil). Charitable donations of £100 were made in 2003 (2002: £1,170).

Taxation status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Disabled employees

It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees.

The Group applies employment policies that are fair and equitable for all employees and which ensure entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. The Group's training and development policies make it clear that the Group will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Group are able to continue to perform their duties.

Employee involvement
The Group attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance and the market in which the Group operates. Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes, which are described in more detail elsewhere in this report.

Internal circulars and newsletters are issued regularly and consultation between management and staff is an ongoing process. Employees are consulted on issues directly affecting them wherever practicable. Further details of the Group's policies and practices relating to employee involvement may be found on page 17 to this report.

Creditor payment policy
It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice; copies are available from the CBI at Centrepoint, 103 New Oxford Street, London. At 31st December 2003 trade creditors represented nine days' purchases (2002: 12 days).

The directors' reports of the Group's United Kingdom operating companies give information about their creditor payment policies as required by the Companies Act. The Company, as a holding company, does not itself make any relevant payments in this respect.

Auditors
A resolution proposing the reappointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors to the Company and authorising the directors to determine their remuneration will be put to the Annual General Meeting.

Approved by the Board on 1st March 2004 and signed on its behalf by:

Emma Thomas
Group Company Secretary

Directors' Responsibilities

In respect of the preparation of financial statements:
The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit and cash flows of the Group for the period to that date. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and in accordance with applicable accounting standards. In addition, the directors are required:

- to adopt suitable accounting policies and apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to take account of expenses and income relating to the period being reported on, whether or not they have been paid or received in that period; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are also responsible for the maintenance and integrity of the Nestor Healthcare Group plc web sites on which the financial statements are published. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are also responsible for maintaining adequate accounting records so as to ensure that the financial statements comply with the requirements of the Companies Act, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

Remuneration Report

The Board is pleased to present its remuneration report for the year ended 31st December 2003.

Remuneration Committee (non-audited)

During the year, the Board delegated its powers to determine the Company's remuneration policy for senior executives, including executive directors, to the Remuneration Committee ("the Committee"), the members of which during the year were Robert Nicholls (Chairman), David Howell, Antony Beevor, Ingrid Alexander, Timothy Harris, all of whom are regarded by the Board as independent non-executive directors and John Rennocks (who was regarded by the Board as being independent within the meaning of the New Code, on the date of his appointment). The Board has retained responsibility for setting the remuneration of the Company's Chairman since he currently serves as a member of the Committee.

The current members of the Committee, as at the date of this Report, are Sir Andrew Foster (Chairman), Ingrid Alexander, Roger Dye and John Rennocks. Sir Andrew and Mr Dye were appointed to the Committee in 2004 and are both regarded by the Board as independent non-executive directors. The terms of reference of the Committee may be found on the Company's website. Further details relating to the Committee may be found on page 34 of this report.

In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Combined Code on Corporate Governance published in June 1998 ("the Code") and the New Code on Corporate Governance published in July 2003 ("the New Code"). It has also received advice on executive remuneration from New Bridge Street Consultants LLP ("NBSC"), which during the year was retained by the Committee as its regular advisor. A copy of a statement relating to the terms on which NBSC is engaged by the Committee is available on the Company's website. The Committee has also received assistance from Justin Jewitt, the Group's Chief Executive, James Buchanan, the Group's Director of Human Resources and Emma Thomas, the Group Company Secretary, all of whom attend meetings of the Committee as required but not in respect of matters relating directly to their own remuneration.

The Company has also instructed NBSC to advise it on certain ad hoc matters during the year, for example in relation to certain pension matters and the administration of the Company's share schemes.

Remuneration Policy (non-audited)

The Committee's overall aim is to provide a package of remuneration which:

- is sufficient but no more than is necessary to attract, retain and motivate all of the Company's most senior management, including executive directors;
- rewards good performance with remuneration that is in line with that payable in broadly comparable businesses; and
- rewards exceptional performance in such a way as to align the executives' interests with those of the Group's shareholders.

To that end, the Committee structures executive remuneration in two distinct parts: fixed remuneration of basic salary and benefits and variable performance-related remuneration, in the form of a cash bonus and long-term incentives. Remuneration is structured so that the variable pay element forms a significant portion of each director's package.

Basic salary and benefits

Basic salary is determined by reference to the responsibilities and performance of the individual director during the year, taking into account experience and the rates of basic pay for similar roles in comparable companies. The Committee's overall aim is to ensure that the basic salary paid to the Group's senior executives is broadly in line with the median of that paid by comparable businesses, having particular regard to their size and complexity. Salaries are reviewed annually, normally in November or December of each year and any adjustments usually take effect from 1st January in the following year. It is the Committee's practice to undertake formal market benchmarking of directors' and senior executives' salaries, with the assistance of NBSC, every two years. With effect from 1st January 2004, executive directors' basic salaries will range from £160,000 to £280,000 for the Chief Executive. The Company additionally provides a range of benefits to executive directors, the most significant of which are a fully expensed car or cash alternative and pension benefits (full details of which are set out below).

Cash bonus

Each year, the Committee sets stretching bonus targets for each executive, aiming to achieve a balance between short and medium-term objectives. In 2004, targets comprise individual and overall Company performance criteria including profit before tax, and cash generation. In the scheme in operation during 2003, the bonuses for executive directors were based on a combination of the achievement of specific profit targets (earnings per share for the Group as a whole and profit growth for each division where appropriate) and the achievement of personal targets aligned to those areas for which they are specifically responsible. Up to 80% of the total maximum bonus was payable in respect of financial targets and up to 20% of the total maximum bonus was payable if the executive met all of his personal objectives in full. No bonus was payable if the relevant financial targets were not met, even if the executive director had met his personal objectives in full.

The maximum bonus payable to executive directors is 80% of salary, excluding that payable to William Holmes, which is 50% of salary. Directors who are eligible to receive a maximum bonus of 80% are required to invest one half of their post-tax bonus payment into the Company's Long Term Incentive Plan ("LTIP"). Details of the LTIP are provided later in this report. Bonuses are not pensionable.

Long-Term Incentives

The Company currently operates two long-term incentive schemes, the Nestor Healthcare Group Share Option Plan 2002 ("the 2002 Plan") and the LTIP, both of which were adopted following approval by shareholders in 2002. In proposing the schemes, the Committee took extensive advice from NBSC, sought and obtained the prior approval of a number of the Company's largest shareholders and complied with prevailing best practice relating to such arrangements.

i. The 2002 Plan

The Committee believes that share ownership by senior executives is an effective means of rewarding superior performance, since the interests of management and shareholders are thereby aligned. The Committee further believes that the provision of share schemes to the Group's managers should be structured in such a way as to encourage them to achieve the Group's long-term aims and that the Group's most senior managers, including executive directors, should be rewarded for exceptional performance with potentially significant rewards.

It is the Company's policy, therefore, regularly to grant share options, on a tiered basis, to a broad range of middle and senior management, including executive directors. In previous years, options have been granted annually to executive directors, to a value equivalent to one times salary, although in exceptional cases, where a key executive joins the Group, a higher limit has sometimes been applied. In other years, a lower limit has also been applied. For example, in 2003 option grants to Justin Jewitt, the Chief Executive, equated to 15% of salary.

"Normal" options

For "normal" options granted to the Group's most senior executives, including all executive directors, a range of normalised earnings per share ("EPS") performance targets will apply to grants as shown below:

	Average growth required in EPS
1st third of an option	RPI + 5% pa
2nd third of an option	RPI + 6% pa
Final third of an option	RPI + 10% pa

In all cases, performance is tested over a three-year period. For grants in 2004 and later years, there will be no opportunities to re-test performance.

EPS was chosen as the relevant benchmark for the measurement of the Company's performance since the target requires substantial improvement in underlying financial performance before options may be exercised. This complements the requirement inherent in an option, which is to grow the share price. The range of EPS targets are considered to be appropriately stretching, generating higher potential reward levels for higher levels of financial performance. This benchmark will be kept under review.

"Super" options

In addition to "normal" options, the 2002 Plan also provides for the grant of "super" options to certain of the Group's most senior managers, including executive directors. The Committee does not intend to grant these "super" options to those executive directors who are eligible to receive LTIP awards but may grant such options to Dr Holmes, who is not. These options may be granted over shares worth up to one and a half times the individual's salary and the exercise of these options is subject to the achievement of more stretching targets than those prescribed by the Committee in relation to "normal" options.

Performance targets relating to "super" options involve a comparison of the Company's total shareholder return ("TSR") with other companies in the FTSE Mid 250 index (excluding investment trusts) as at the date of grant, measured over a single three year period from grant. Options are exercisable as set out below:

Nestor's TSR ranking in group	% of "super" options exercisable
Below 45th percentile	0%
45th percentile	40%
45th percentile to 25th percentile	Sliding scale from 40% to 100%
25th percentile and above	100%

In addition to the TSR condition above, no element of the option is exercisable unless the Company's EPS growth over the three-year period exceeds 5% per annum over RPI. There is no opportunity to re-test performance.

ii. LTIP

Under the LTIP, the executive directors who are eligible to participate (namely Justin Jewitt, Stephen Booty, Martyn Ellis and Stephen Page) are required to invest one half of their post-tax cash bonus in buying shares in the Company. The investment will be matched by the grant of matching awards.

Matching awards will normally only vest on the third anniversary of its grant if the participant is still in the Company's employment, has retained the shares purchased with the bonus and if specified performance targets are met. The current performance target involves a comparison of the Company's TSR with other companies in the FTSE Mid 250 index (excluding investment trusts) as at the date of grant, measured over a single three year period from grant. Matching awards vest as set out below:

	Matching Ratio	
Nestor's TSR ranking in group	Chief Executive	Other Eligible Executive Directors
Below 45th percentile	0	0
45th percentile	0.5:1	0.3:1
45th percentile to 10th percentile	Sliding scale from 0.5:1 to 4:1	Sliding scale from 0.3:1 to 2.5:1
10th percentile and above	4:1	2.5:1

In addition to the TSR condition above, none of the award will vest if the Company's EPS growth does not exceed the growth in RPI by an average of at least 5% per annum over the three year period. There is no opportunity to re-test performance.

The Committee considers TSR to be a suitable performance measure for both the "super" options and the LTIP as it clearly aligns interests of shareholders and executives. It also considers that the FTSE Mid 250 Index is an appropriate benchmark as there are no other companies with a similar business profile to the Company listed on the UK Stock Exchange. TSR performance will be independently calculated for the Committee. A chart showing the Company's TSR compared to the FTSE Mid 250 Index over the last five financial years is shown below.

iii. SAYE Scheme

The Company also operates a savings related share option scheme, which provides a long-term savings opportunity for all of the Group's employees, as well as encouraging them to participate in the success of the Company. Participation is open to all permanent employees who are able to make regular monthly savings and are exercisable in normal circumstances after three or five years at a price which is fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately preceding the date on which invitations are made by the Committee.

Company policy on the pensions of executive directors (non-audited)

Until it was closed to new entrants in April 2003, executive directors were able to join the Nestor Healthcare Group Retirement Benefits Scheme ("the Scheme"), a funded, Inland Revenue approved, final salary occupational pension scheme. Pensions in the Scheme are based on final salary (excluding bonuses) and length of pensionable service. In respect of those directors who are members of the Scheme, the Company has agreed to provide benefits based on their actual basic salary, even where this exceeds the Inland Revenue Earnings "cap", subject to their making members' contributions to the Scheme on the same basis. The Company has also established an unapproved scheme to provide additional death-in-service benefits to these directors in line with their actual basic salaries.

Under the Scheme, the normal retirement age of executive directors is 60 and the basic rate of accrual is 1/50th.

Stephen Booty also receives a cash sum to enhance these benefits to an accrual rate of 1/30th.

Prior to the establishment of the Company's policy on membership of the Scheme, the Company agreed to contribute to a defined contribution personal pension plan for Justin Jewitt, which it continues to do.

Since the Scheme was closed to new entrants in April 2003, newly appointed employees, including executive directors, are eligible to join the Nestor Healthcare Group Personal Pension Plan ("GPP"), which is a defined contribution arrangement. In respect of executive directors, the Company makes contributions to the GPP at a rate of 20% of the director's basic salary.

Executive directors' contracts of service (non-audited)

iv. Policy

It is the Committee's policy only to offer contracts terminable on no more than 12 months' notice to executive directors. All currently serving executive directors have contracts of employment terminable in all circumstances on a maximum of 12 months' notice. When offering contracts of employment to newly appointed executive directors, the Committee has regard to the broad principles outlined in the ABI and NAPF's joint statement on Best Practice on Executive Contracts and Severance, including the director's duty to mitigate his losses in the event of early termination of his contract.

v. Specific Contractual Details

Current Executive Directors

			Termination provisions		
	Date of contract	Notice period	"Pay in lieu of notice" clause	Share Options	Annual Bonus
Justin Jewitt	20th March 1997	12 months' notice from Company	Note 1	Note 2	Note 3
Stephen Booty	1st February 2003	12 months' notice from Company	Note 1	Note 2	Note 3
Martyn Ellis	23rd May 2003	12 months' notice from Company	Note 1	Note 2	Note 3
William Holmes	1st October 2001	12 months' notice from Company	Note 1	Note 2	Note 3
Stephen Page	18th July 2001	12 months' notice from Company	Note 1	Note 2	Note 3

Former Executive Director

David Lyon	30th April 1998 (resigned 1st May 2003)	12 months' notice from Company, except in change of control, where 24 months' notice was required if notice was given within 12 months of change of control	Note 1	Note 2	Note 3

Notes

1 The Company may terminate the director's employment without notice, provided it pays to him an amount equating to his salary, benefits and employer's pension contributions or credits him with an additional period of pensionable service (as applicable) for the unexpired period of notice due under the contract. Martyn Ellis's contract permits the Company to pay any monies due on a monthly basis and, at its discretion, to cease or reduce payments if he accepts suitable alternative employment.

2 At the Board's discretion, the director may be entitled to retain any vested share options held under the Group's Share Option Schemes for a period of up to 12 months from termination. He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date.

3 Depending on the time of year at which his employment is terminated, the director may be entitled to any bonus earned by him (but not yet paid) under the Group's bonus scheme.

Chairman and non-executive Directors (non-audited)

The Board sets the fee levels for the Chairman and non-executive directors. Non-executive directors do not hold contracts of employment but are offered letters of appointment for a fixed period of three years, renewable annually thereafter by agreement. Non-executive directors do not participate in any of the Group's annual or long-term incentive arrangements, nor is their remuneration pensionable.

Current non-executive directors

	Date of letter of appointment	Appointment term	Compensation in the event of early termination of office
John Rennocks	1st October 2003	3 years from 1st October 2003	3 months' fees
Ingrid Alexander	25th July 2001	3 years from 13th August 2001	None
Roger Dye	9th January 2004	3 years from 1st January 2004	Up to 12 months' fees, payable on a diminishing basis, if appointment is terminated in the first 12 months of appointment. Thereafter, no compensation is payable
Sir Andrew Foster	19th January 2004	3 years from 1st January 2004	None

Former non-executive directors

	Date of letter of appointment	Date of leaving Board	Compensation in the event of early termination of office
Robert Nicholls	14th May 1997	19th January 2004	None
Antony Beevor	7th December 2001	1st October 2003	25% of annual fee
Timothy Harris	6th December 2001	3rd November 2003	None
David Howell	26th August 1999	28th October 2003	None

Directors' emoluments (audited)

	Basic salary and fees 2003 £000	Performance related bonuses 2003 £000	Taxable benefits 2003 £000	Compensation for loss of office 2003 £000	Total emoluments excluding pensions 2003 £000	Total emoluments excluding pensions 2002 £000
I C Alexander	29	–	–	–	29	27
S M Booty	165	49	68	–	282	122
M A Ellis	110	33	27	–	170	–
W F Holmes	133	23	18	–	174	196
J A S Jewitt	250	50	22	–	322	361
R M Nicholls	37	–	–	–	37	35
S R Page	165	23	17	–	205	200
J L Rennocks	29	–	–	–	29	–
A R Beevor	60	–	–	20	80	78
T C Harris	26	–	–	–	26	27
D Howell	33	–	–	–	33	35
D O Lyon	53	–	5	197	255	243
R I Burns	–	–	–	–	–	374
D G Heywood	–	–	–	–	–	8
M D R Horgan	–	–	–	–	–	38
Total 2003	1,090	178	157	217	1,642	
Total 2002	1,156	345	85	158		1,744

Benefits receivable consist primarily of car allowance, car fuel and healthcare insurance.

50% of the net performance related bonuses payable to Justin Jewitt, Martyn Ellis, Stephen Booty and Stephen Page, disclosed above, are to be invested in the Group's shares in the LTIP.

Included in compensation for loss of office for David Lyon is a payment representing additional pension contributions as provided for in his service agreement.

Included in taxable benefits relating to Stephen Booty is a payment of £54,893 representing an additional pension contribution.

Included in taxable benefits relating to Martyn Ellis is a payment of £10,400 representing an additional pension contribution.

Stephen Booty was appointed as a director on 19th June 2002. Martyn Ellis was appointed as a director on 1st May 2003. John Rennocks was appointed as a director on 1st October 2003.

David Lyon resigned as a director on 1st May 2003. Antony Beevor resigned as a director on 1st October 2003 and David Howell and Timothy Harris resigned as directors on 28th October 2003 and 3rd November 2003 respectively.

Robert Burns resigned as a director on 30th October 2002, David Heywood resigned as a director on 31st December 2001 and Michael Horgan resigned as a director on 4th March 2002.

Robert Nicholls resigned as a director on 19th January 2004.

On 1st September 2003, Justin Jewitt was appointed as a director of South Staffordshire Group plc. He receives fees of £25,000 per annum in respect of this position, which he retains.

The figures above represent emoluments earned as directors during the relevant financial year. All are paid in the year that they are earned, with the exception of bonuses, which are paid in the year following that in which they were earned.

Directors' pensions (audited)

Defined benefit scheme

	Accrued pension per annum at 31st December 2003 £000	Increase in accrued pension per annum during 2003 £000	Increase in accrued pension per annum during 2003 excluding price inflation £000	Transfer value of accrued pension at 31st December 2003 £000	Transfer value of accrued pension at 31st December 2002 £000	Transfer value of the increase excluding price inflation less director's contributions £000	Increase in transfer value during 2003 less director's contributions £000
S M Booty	6	3	3	50	23	16	20
W F Holmes	6	3	3	47	23	14	18
D O Lyon (resigned 1st May 2003)	40	3	3	226	179	9	39
S R Page	10	3	3	54	31	9	14

The transfer value has been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11. The above figures exclude any benefits derived from directors' additional voluntary contributions.

Defined contribution schemes

Employer contributions of £66,296 (2002: £106,000) were paid during the year to a personal pension plan for Justin Jewitt. Employer contributions of £13,200 (2002: £nil) were paid during the year to the GPP in respect of Martyn Ellis.

Directors' interests (audited)

The beneficial and family interests of directors in post at the year-end in the share capital of the Company according to the register of directors' interests maintained by the Company under Section 325 of the Companies Act 1985 were:

	Ordinary Shares (non-audited)		Share Options (audited)							
			Company Plan 1996		Employee Scheme 1996		Share Option Plan 2002		SAYE Schemes	
	31.12.03	31.12.02	31.12.03	31.12.02	31.12.03	31.12.02	31.12.03	31.12.02	31.12.03	31.12.02
I Alexander	–	–	–	–	–	–	–	–	–	–
S M Booty	–	–	5,514	5,514	23,897	23,897	124,941[5]	112,941[5]	6,014	2,088
M A Ellis	–	–[4]	–	–[4]	–	–[4]	64,716	–[4]	–	–[4]
W F Holmes	4,000	4,000	5,882	5,882	43,137	43,137	70,823	58,823	10,453	3,638
J A S Jewitt	270,770	270,770	7,058	7,058	67,883	67,883	12,000	–	10,453	3,773
R M Nicholls	–	–	–	–	–	–	–	–	–	–
S R Page	8,222	8,222	6,349	6,349	46,561	46,561	162,588[6]	150,588[6]	6,014	2,166
J L Rennocks	4,896	–[4]	–	–[4]	–	–[4]	–	–[4]	–	–[4]

Notes:

1 None of the directors has any non-beneficial interest in the Company's share capital.

2 No director was materially interested in any contract of significance (apart from contracts of service or for services) with any Group company during or at the end of the financial year.

3 There have been no changes in the directors' interests in the share capital of the Company between 31st December 2003 and the date of this report. However, 50% of the net performance related 2003 bonus payment made to Stephen Booty, Martyn Ellis, Justin Jewitt and Stephen Page is to be invested in the Group's shares in the LTIP. The shareholdings, at the date of this report, of the directors who have joined since the year-end are: Roger Dye (nil) and Sir Andrew Foster (nil).

4 At date of appointment.

5 112,941 options granted to Stephen Booty under the 2002 Plan in 2002 are "Super Options".

6 75,294 options granted to Stephen Page under the 2002 Plan in 2002 are "Super Options".

Details of share options held by the directors during the year were:

	Scheme (see below)	At 1st January 2003	Granted	Exercised	Lapsed	At 31st December 2003	Exercise price	Date from which exercisable	Expiry date
S M Booty	1	23,897	–	–	–	23,897	544p	Apr '05	Apr '12
	2	5,514	–	–	–	5,514	544p	Apr '05	Apr '12
	3	2,088	–	–	(2,088)	–	454.8p	Jun '05	Nov '05
	3	–	6,014	–	–	6,014	157.12p	Jun '06	Nov '06
	4	–	12,000	–	–	12,000	301p	Nov '06	Nov '13
	5	112,941	–	–	–	112,941	212.5p	Oct '05	Oct '12
M A Ellis	4	–	64,716	–	–	64,716	273.5p	Jun '06	Jun '13
W F Holmes	1	43,137	–	–	–	43,137	510p	Oct '04	Oct '11
	2	5,882	–	–	–	5,882	510p	Oct '04	Oct '11
	3	3,638	–	–	(3,638)	–	454.8p	Jun '05	Nov '05
	3	–	10,453	–	–	10,453	157.12p	Jun '08	Nov '08
	4	58,823	–	–	–	58,823	212.5p	Oct '05	Oct '12
	4	–	12,000	–	–	12,000	301p	Nov '06	Nov '13
J A S Jewitt	1	45,883	–	–	–	45,883	425p	May '03	May '10
	1	22,000	–	–	–	22,000	542.5p	Mar '04	Mar '11
	2	7,058	–	–	–	7,058	425p	May '03	May '10
	3	3,773	–	–	(3,773)	–	447.2p	Jun '06	Nov '06
	3	–	10,453	–	–	10,453	157.12p	Jun '08	Nov '08
	4	–	12,000	–	–	12,000	301p	Nov '06	Nov '13
S R Page	1	46,561	–	–	–	46,561	472.5p	Nov '03	Nov '10
	2	6,349	–	–	–	6,349	472.5p	Nov '03	Nov '10
	3	2,166	–	–	(2,166)	–	447.2p	Jun '04	Nov '04
	3	–	6,014	–	–	6,014	157.12p	Jun '06	Nov '06
	4	75,294	–	–	–	75,294	212.5p	Oct '05	Oct '12
	4	–	12,000	–	–	12,000	301p	Nov '06	Nov '13
	5	75,294	–	–	–	75,294	212.50	Oct '05	Oct '12
D O Lyon	1	11,647	–	–	–	11,647	407.5p	Note 5	Apr '04
	1	30,294	–	–	–	30,294	425p	Note 5	Apr '04
	1	12,222	–	–	–	12,222	542.5p	Note 5	Apr '04
	3	2,166	–	–	(2,166)	–	447.2p	Note 5	Oct '03

Schemes:

1 Employee Share Option Scheme 1996 Options; performance target – EPS growth of RPI plus 5% per annum
2 Company Share Option Plan 1996 Options; performance target – EPS growth of RPI plus 5% per annum
3 SAYE Scheme Options
4 The 2002 Plan – "Normal Option"
5 The 2002 Plan – "Super Option"

Notes:

1 There is no cost to the employee for the receipt of options under the Employee Share Option Scheme 1996, Company Share Option Plan 1996 or the 2002 Plan. Deductions from earnings are made in respect of SAYE options.
2 Employee Share Option Scheme 1996, Company Share Option Plan 1996 and the 2002 Plan option prices are fixed at the mid-market price on the business day preceding the date of grant.
3 SAYE Scheme options are fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately before the date of invitation.
4 The mid-market price at 31st December 2003 was 206 pence and the range during the year was 171 pence to 345 pence.
5 Subject to the discretion of the Remuneration Committee, following his termination, David Lyon may exercise all executive share options he currently holds in the period up to 30th April 2004 except the SAYE scheme options which lapsed on 31st October 2003.
6 No grants have been made to date under the LTIP.
7 No options were exercised by directors in 2003.
8 Justin Jewitt, Stephen Booty, William Holmes and Stephen Page withdrew from the SAYE Scheme offered in June 2002 in order to join the June 2003 scheme with a lower option price.

On behalf of the Board

Sir Andrew Foster
Chairman, Remuneration Committee
1st March 2004

Corporate Governance

Introduction

The Company complied throughout the year with the Code provisions set out in Section 1 of the Code except where indicated in this statement.

The manner in which the Group applies the principles of good governance contained in the Code is described in the appropriate parts of this annual report. The application by the Company of the Code's principles to remuneration matters on pages 25 and 31 should be read in conjunction with the statement below.

In the period since the publication in July 2003 of the New Code the Company has reviewed its corporate governance polices and procedures, with the intention that they should comply with the New Code unless the Board considers that a valid reason for non-compliance exists. The Company will be subject to the requirements of the New Code from its 2004 financial year but wherever possible, its current compliance or otherwise is disclosed in this report in order to assist shareholders in assessing the Company's overall compliance with generally accepted standards of corporate governance.

The Board

The Board of directors leads and controls the Company by holding at least ten meetings a year at which its current and forecast performance are examined. Regular reports on monthly performance and other matters of importance to the Company ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement. In addition, the Board holds regular meetings to discuss and devise the Company's medium- and long-term strategic focus and management development strategy and holds additional meetings as and when necessary to discuss other issues, such as potential acquisitions. During the year, additional meetings of the Board and a Committee established for the purpose were held to formulate and approve the Board's response to the unsolicited approach received by the Company.

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to re-election by the Company's shareholders at the Annual General Meeting immediately following appointment and at least every three years thereafter.

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority in certain matters. The Schedule makes it clear that all directors have access to the advice and services of the Company Secretary and establishes a procedure for all directors to take independent advice, if necessary, at the Company's expense. Matters reserved to the Board include the recommendation or approval of dividends, the approval of final and interim financial statements, major financial commitments, the acquisition of companies or businesses, appointments to the Board and its committees, the Group's future strategy and the Group's internal controls. This Schedule is kept under regular review; most recently in January 2004.

Until 1st October, the Board was led by Antony Beevor, as non-executive Chairman. He also served as a member of the Board's Audit and Remuneration Committees. Following his resignation, John Rennocks was appointed as non-executive Chairman.

The day-to-day running of the Company's business is delegated to an executive team led by Justin Jewitt, the Group's Chief Executive and includes Stephen Booty, Managing Director of the Personnel Division, Stephen Page, Managing Director of the Services Division, Martyn Ellis Group Finance Director and Dr William Holmes, who is responsible for the Group's clinical governance.

During the year, four independent non-executive directors with extensive business, finance, health and social care backgrounds provided the Board with a breadth of experience and with independent judgement. Robert Nicholls, CBE, served as the Company's independent senior non-executive director until his retirement from the Board on 19th January 2004 when he was succeeded as senior non-executive director by Sir Andrew Foster. Ingrid Alexander, CBE, served as an independent non-executive director throughout the year.

Roger Dye and Sir Andrew Foster were appointed as independent non-executive directors on 19th January 2004.

Until their resignations in October and November 2003 respectively, David Howell and Timothy Harris, CBE, served as independent non-executive directors.

Having reviewed the Code, the Board considers that its present membership is appropriate. This recognises that in John Rennocks, the Board has a Chairman who remains de facto "independent" (having met the criteria of independence referred to in Provision A 3.1. of the New Code on his appointment), notwithstanding the provisions of the New Code, and that two new independent non-executive directors have recently been appointed. It also considers that the Board's policies and procedures are of sufficient strength to ensure that the performance and proceedings of the Company are effectively challenged and controlled. However, the Board will keep the question of the appointment of additional non-executive directors under review.

The Board actively encourages all directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Company and the environment in which it operates. Newly appointed Board members undergo an induction programme and have the opportunity to receive formal training. In addition, during 2003, all of the non-executive directors spent a number of days meeting members of the Company's executive team and most visited several of the Group's operating divisions. Further training for directors is available and offered as appropriate.

The Board has recently adopted a formal process for reviewing its own effectiveness and that of its individual members, for implementation in 2004. In addition, it has now formalised its previously informal policy of holding meetings of the non-executive directors without the executive directors and, at least once a year without the Chairman present, in order to evaluate his performance.

All non-executive directors meet the criteria of independence as laid down in Provision A3.1 of the New Code with the exception of John Rennocks who met all of the criteria of independence on appointment and whom the Board currently regards de facto independent in the light of the recentness of his appointment.

Committees
The Board operates a number of committees, consisting wholly or mainly of non-executive directors to which it has delegated certain specific responsibilities and each of which has formally adopted terms of reference. These comprise the Nomination, Audit and Remuneration Committees.

Nomination Committee
The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by John Rennocks. The Committee draws on the advice of the Group's Director of Human Resources and such professional advisors as it considers necessary. For the purposes of identifying a new Finance Director, it used the services of a firm of search consultants with particular expertise in the selection of senior executives; for the purposes of identifying a new Chairman and for identifying the non-executive directors appointed by the Board in January 2004, the Committee used the services of a firm of search consultants with particular expertise in the selection of non-executive directors. With the assistance of that firm of consultants and senior managers, the Committee drew up a comprehensive specification for the Chairman, which was approved by the Board before the recruitment process began. Similar role specifications were also drawn-up by the Committee in respect of the two independent non-executive directors appointed in January 2004.

Until his resignation from the Board in October 2003, Antony Beevor was Chairman of the Committee, although the Chair was passed to Robert Nicholls when the Committee met for the purpose of identifying and recommending a successor as Chairman of the Board.

Until the resignation from the Board of David Howell and Timothy Harris in October and November 2003 respectively, the Nomination Committee comprised a majority of independent non-executive directors; the only executive director to serve on it throughout was the Chief Executive. During the year, other executive directors were, from time to time, co-opted to the Committee, particularly in circumstances where it was tasked with identifying a non-executive director with experience or expertise relevant to the executive director's responsibilities.

The Committee now comprises John Rennocks, its Chairman, Ingrid Alexander, Roger Dye, Sir Andrew Foster and Justin Jewitt.

The Terms of Reference of the Nomination Committee are regularly reviewed by the Board.

Audit Committee
The Audit Committee is chaired by Roger Dye, a chartered accountant and Finance Director of the Davis Service Group plc. It comprises only non-executive directors but includes John Rennocks as the Board is of the opinion that the Committee's work benefits from his financial expertise and experience gained as a former executive finance director and as chairman of the Audit Committees of a number of other publicly listed companies. Mr Rennocks also acted as the Chairman of the Committee after the resignation from the Board of David Howell, its previous Chairman, until the appointment of Mr Dye in March 2004, since of all of the non-executive directors serving on the Board at that time, he possessed the most recent and relevant financial experience.

The other members of the Committee comprise Ingrid Alexander and Sir Andrew Foster; in 2003 David Howell and Timothy Harris also served on the Committee until the date of their resignation as directors.

The Committee meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. The Committee's duties also include monitoring the scope and results of the Company's annual audit and the independence and objectivity of its auditors. The Terms of Reference of the Audit Committee are regularly reviewed by the Board. The Committee has recently agreed a procedure for reviewing and assessing its own effectiveness and that of the external audit process; such procedure has been documented and will be fully implemented during the course of 2004.

During 2003, the Company's internal audit function was outsourced to a leading firm of chartered accountants, which reported regularly to the Audit Committee on projects undertaken in accordance with the audit plan agreed with the Committee at the beginning of every financial year. Copies of all reports issued by the internal auditors were circulated to all members of the Audit Committee as they are published. Shortly before the year-end, the Committee and Board resolved to establish an in-house internal audit function and appointed an Internal Audit Manager to oversee that function, which will report and be accountable to the Audit Committee in the same manner.

Remuneration Committee

The Remuneration Committee's responsibilities include determining the Group's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chief Executive and having received professional advice from remuneration consultants and the Group's Director of Human Resources. The Committee is also responsible for approving the grant and exercise of executive share-based incentive arrangements. In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality.

The remuneration of non-executive directors, including the Chairman, is a matter for the Company's Board and the Committee's terms of reference make it clear that the framework for the remuneration of the Company's senior executives (including executive directors) must be agreed by the Board as a whole.

Until his retirement in January 2004, Robert Nicholls chaired the Committee; since 19th January 2004, Sir Andrew Foster has taken the Chair.

Until November 2003, only independent non-executive directors served on the Remuneration Committee. However, following his appointment as Chairman of the Board, John Rennocks was appointed to the Committee.

The other members of the Committee are Ingrid Alexander and Roger Dye.

Short biographies of each of the directors, including their membership of the Board's committees outlined above, may be found on pages 20 and 21.

Attendance at meetings

During the year, 11 meetings were held of the Board, including three meetings held at short notice in order to consider the unsolicited approach for the Company. Three meetings took place of the Audit Committee and four of the Remuneration Committee; one formal meeting of the Nomination Committee was held in the year but most of that committee's activities were undertaken by a series of informal meetings and telephone consultations.

All directors attended each of the meetings that they were eligible to attend, except that in respect of two of the meetings held at short notice, two directors were unable to attend each meeting; and one director did not attend a meeting of the Audit Committee.

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chief Executive and Group Finance Director meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the senior non-executive director, who is available to discuss any questions which investors may have in relation to the running of the Company. They also have access to the Chairman of the Company if they so require. The Board encourages shareholders to attend the AGM and is always willing to answer questions, either in the meeting itself or, more informally, afterwards. In addition, shareholders may contact the Company direct, either through its website or by telephoning its offices on 01707 255 635.

Since his appointment as Chairman, John Rennocks has contacted all of the Company's largest shareholders, offering to meet with them to discuss matters of strategy, corporate governance and any other issues that they wish to cover. To date, he has met with nine of the Group's largest shareholders.

The Board also recognises the need to ensure that all directors are fully aware of the views of major shareholders about the Company. Copies of all analysts' research relating to the Company are circulated to all directors upon publication, quarterly analyses of the Company's shareholder register are made available to the Board and written feedback from shareholders and analysts, prepared by the Company's brokers, is provided to all directors after every significant corporate event and at least twice a year.

Going concern

The directors confirm that, after reviewing the financial position and cash flows of the Group, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal controls

As required by the UK Listing Authority, the Company has complied throughout the year with the provisions of the Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In 1999, the directors adopted a revised comprehensive process for managing, evaluating and reporting on significant risks faced by the Group. The revised (and further refined and extended) process has been in place for the whole of 2003 and up to the date of approval of the Annual Report & Accounts.

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following:

- The Group's management operates a formal process for identifying, managing and reporting on operational, clinical and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a semi-annual basis and updated monthly in reports presented to the senior management team. Senior management team review meetings are held on at least a monthly basis at which the Group's business managers and executive team members report on the progress of the companies or discipline for which they are responsible. The formal process for identifying discipline-specific risks across the Group's operations encompasses financial, IT, human resources, legal, property and clinical risks. A mechanism also exists to extend the Group's formal risk management processes to any significant new business acquired or begun by the Company immediately upon acquisition or start-up. In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of 2003.

- At each regular meeting, the Audit Committee of the Board reviews a register compiled by the managing director of each of the Group's businesses and by certain members of the Group's senior management team, summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks.

- During the year, the Board has also refined its policies for managing the business risks it has identified as having the potential to impact significantly on the Group's performance. For example, in 2003, it took steps better to align its risk management processes to the operational imperatives of the businesses by helping to develop key performance indicators that assist the Group's operational management to focus on developing trends at an early stage.

As required by the Turnbull Guidance, the Board has carried out an annual assessment of the effectiveness of the system of internal controls. The processes applied by the Board include:

- At the end of the year, the managing directors of each of the Group's businesses, including the Group's corporate resource, are required to complete and sign a register of the key financial and operational risks facing the business for which they are responsible and to confirm that they have complied throughout the year with the Company's policies and procedures on risk management. From these registers, a report identifying the key risks faced by the Group is compiled and signed by the Chief Executive, Group Finance Director and Group Company Secretary, who are also required to confirm their compliance with such procedures and policies. This report and the annual compliance statements of each of the managing directors, endorsed by the Divisional managing directors, are reviewed by the Board before the Annual Report & Accounts are approved.

- The Group has an independent Internal Audit function which reviews the overall effectiveness of the risk management process for the key risks and reports independently to the Audit Committee.

- At each meeting the Audit Committee reviews reports of the senior management team, internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.

- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration.

- At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.

- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

Auditors' Report

Report to the shareholders of Nestor Healthcare Group plc

Independent auditors' report to the members of Nestor Healthcare Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' Remuneration Report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code, issued in June 1998, specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 2003 and of the profit and cash flows of the group for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- those parts of the directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6RH
1st March 2004

Consolidated Profit and Loss Account

for the year ended 31st December 2003

	Notes	2003 Before goodwill amortisation and exceptional items £000	2003 Goodwill amortisation and exceptional items £000	2003 Total £000	2002* Before goodwill amortisation and exceptional items £000	2002* Goodwill amortisation and exceptional items £000	2002* Total £000
Turnover							
Existing		403,944	–	403,944	482,695	–	482,695
Acquisitions		19,217	–	19,217	–	–	–
Turnover	3	423,161	–	423,161	482,695	–	482,695
Cost of sales		(319,257)	–	(319,257)	(361,574)	–	(361,574)
Gross profit		103,904	–	103,904	121,121	–	121,121
Administrative expenses		(75,114)	(8,398)	(83,512)	(83,821)	(7,631)	(91,452)
Exceptional items	5	–	–	–	–	(18,100)	(18,100)
Continuing operations							
Operating profit existing	3	24,714	(7,568)	17,146	37,300	(25,731)	11,569
Operating profit acquisitions	3	4,076	(830)	3,246	–	–	–
Operating profit	3,4	28,790	(8,398)	20,392	37,300	(25,731)	11,569
Exceptional (loss)/gain on disposal of subsidiary undertaking	5	–	(2,680)	(2,680)	–	800	800
Profit on ordinary activities before interest		28,790	(11,078)	17,712	37,300	(24,931)	12,369
Net interest payable	8	(4,110)	–	(4,110)	(4,238)	–	(4,238)
Profit on ordinary activities before taxation goodwill amortisation and exceptional items		24,680	–	24,680	33,062	–	33,062
Goodwill amortisation		–	(8,398)	(8,398)	–	(7,631)	(7,631)
Exceptional items		–	(2,680)	(2,680)	–	(17,300)	(17,300)
Profit on ordinary activities before taxation		24,680	(11,078)	13,602	33,062	(24,931)	8,131
Tax on profit on ordinary activities	9	(4,353)	–	(4,353)	(6,898)	846	(6,052)
Profit on ordinary activities after taxation		20,327	(11,078)	9,249	26,164	(24,085)	2,079
Equity minority interests		(47)	–	(47)	(48)	–	(48)
Profit attributable to shareholders		20,280	(11,078)	9,202	26,116	(24,085)	2,031
Equity dividends	11	(8,427)	–	(8,427)	(8,413)	–	(8,413)
Retained profit/(loss) for the year	24	11,853	(11,078)	775	17,703	(24,085)	(6,382)
Earnings per share							
Basic	12	23.17p	(12.66p)	10.51p	29.90p	(27.57p)	2.33p
Diluted	12	23.05p	(12.59p)	10.46p	29.85p	(27.53p)	2.32p
Dividends per share	11	9.62p	–	9.62p	9.62p	–	9.62p

* As restated (note 2).

The historical cost profit on ordinary activities before taxation and the historical cost profit/(loss) retained for the year after taxation and dividends are the same as those reported above.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31st December 2003

	Notes	2003 £000	2002* £000
Profit attributable to shareholders		**9,202**	2,031
Total recognised gains and losses relating to the year		**9,202**	2,031
Prior year adjustment	2	**463**	–
Total gains and losses recognised since the last annual report		**9,665**	**2,031**

* *As restated (note 2).*

Reconciliation of Movements in Consolidated Equity Shareholders' Funds

for the year ended 31st December 2003

	Notes	2003 £000	2002* £000
Profit attributable to shareholders		**9,202**	2,031
Dividends	11	**(8,427)**	(8,413)
Shares issued during the year		**216**	763
Net increase/(decrease) in equity shareholders' funds		**991**	(5,619)
Opening equity shareholders' funds as previously reported		**87,535**	93,277
Prior year adjustment		**463**	340
Opening equity shareholders' funds as restated		**87,998**	93,617
Closing equity shareholders' funds		**88,989**	87,998

* As restated (note 2).

Balance Sheets
as at 31st December 2003

	Notes	Group 2003 £000	Group 2002* £000	Company 2003 £000	Company 2002* £000
Fixed assets					
Intangible assets	13	**161,085**	138,049	**–**	–
Tangible fixed assets	14	**12,968**	12,741	**58**	751
Investments	16	**–**	1	**33,249**	33,250
		174,053	150,791	**33,307**	34,001
Current assets					
Debtors	17	**61,496**	59,187	**465,145**	434,401
Cash at bank and in hand	20	**2,928**	9,196	**1,318**	119
		64,424	68,383	**466,463**	434,520
Creditors – amounts falling due within one year	18	**(52,172)**	(62,162)	**(48,145)**	(54,405)
Net current assets		**12,252**	6,221	**418,318**	380,115
Total assets less current liabilities		**186,305**	157,012	**451,625**	414,116
Creditors – amounts falling due after more than *one year*	19	***(90,004)***	*(60,051)*	***(90,000)***	*(60,000)*
Provisions for liabilities and charges	22	**(7,380)**	(8,642)	**(913)**	(1,140)
Net assets		**88,921**	88,319	**360,712**	352,976
Capital and reserves					
Called up share capital	23	**8,763**	8,747	**8,763**	8,747
Share premium account	24	**43,222**	43,022	**43,222**	43,022
Other reserves	24	**864**	864	**25,750**	25,750
Profit and loss account	24	**36,140**	35,365	**282,977**	275,457
Equity shareholders' funds		**88,989**	87,998	**360,712**	352,976
Equity minority interests		***(68)***	*321*	**–**	–
		88,921	88,319	**360,712**	352,976

* As restated (note 2).

The financial statements on pages 37 to 61 were approved by the Board on 1st March 2004 and were signed on its behalf by:

J L Rennocks

M A Ellis

Consolidated Cash Flow Statement

for the year ended 31st December 2003

	2003 £000	2003 £000	2002 £000	2002 £000
Net cash inflow from operating activities before exceptional items (note 25)		**24,990**		54,144
Payments in respect of exceptional items		**(1,899)**		(2,300)
Returns on investments and servicing of finance				
Interest paid	**(3,708)**		(3,848)	
Interest received	**50**		50	
Dividends paid to minority interests	**(71)**		–	
Interest element of finance leases	**(15)**		(98)	
Net cash outflow from returns on investments and servicing of finance		**(3,744)**		(3,896)
Taxation		**(5,711)**		(6,240)
Net cash inflow before investing activities and equity dividends paid		**13,636**		41,708
Capital expenditure and financial investment				
Purchase of tangible fixed assets (note 14)	***(9,948)***		*(7,926)*	
Sale of tangible fixed assets	**4,218**		1,183	
Net cash outflow from capital expenditure **and financial investment**		**(5,730)**		(6,743)
Acquisitions and disposals				
Purchase of businesses and subsidiary undertakings (note 16)	**(31,108)**		(13,263)	
Net cash acquired with businesses (note 16)	**1,563**		90	
Deferred consideration received from sale of business (note 5)	**260**		533	
Net cash outflow from acquisitions and disposals		**(29,285)**		(12,640)
Equity dividends paid		**(8,420)**		(7,499)
Net cash (outflow)/inflow before financing		**(29,799)**		14,826
Financing				
Issue of ordinary share capital (note 23)	**216**		763	
Capital element of finance lease payments	**(479)**		(1,425)	
Increase/(decrease) in borrowing	**25,708**		(8,979)	
Net cash inflow/(outflow) from financing		**25,445**		(9,641)
(Decrease)/increase in cash		**(4,354)**		5,185

The notes to the Consolidated Cash Flow Statement are shown in note 25 to the financial statements.

The post acquisition trading of the businesses acquired during the year generated operating profit before goodwill amortisation of £4.3 million. It is not practicable to determine the impact of acquisitions on other cash flow items.

Notes to the Financial Statements

for the year ended 31st December 2003

1a Accounting policies

Presentation of statement of profit and loss

A columnar presentation has been adopted in the statement of profit and loss in order to illustrate underlying business performance as this is the primary measure used by management. For this purpose, goodwill amortisation, goodwill impairment and other exceptional items are excluded from business performance.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Basis of consolidation

The Group financial statements comprise a consolidation of the financial statements of the Company and all its subsidiary undertakings. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal. The accounting reference date of the Company and all trading subsidiary undertakings is 31st December.

Turnover

Revenue is recognised in the profit and loss account when goods or services are supplied to external customers against orders received.

Goodwill and amortisation

Purchased goodwill, being the excess of the fair value of the purchase consideration over the fair value of the net assets of newly acquired undertakings, is capitalised on the balance sheet, and amortised over its useful economic life not exceeding 20 years. Prior to 1st January 1998, all purchased goodwill was written off to reserves on acquisition. Previously written off goodwill has not been reinstated and is charged to the profit and loss account on the disposal or termination of the related business.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation and impairment. Depreciation is calculated so as to write down the cost of tangible assets to their estimated residual value in equal instalments over their estimated useful lives. The range of estimated useful lives for each major asset category, which are reviewed annually, are:

Leasehold land and buildings	Term of the lease
Plant and equipment, fixtures and fittings (including computer equipment)	3 to 8 years

Fixed asset investments

Investments in subsidiary undertakings are held at original cost less any provision for impairment.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain.

Deferred tax is measured at the tax rate expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a discounted basis and the unwinding of the discount is shown as an adjustment to the tax charge.

Pension costs

Pension costs are charged to the profit and loss account in such a way as to provide for the liabilities evenly over the average remaining working lives of the employees. Any difference between this charge and contributions paid based on actuarial assumptions is included as an asset or liability in the consolidated balance sheet. The Group has adopted the transitional rules on actuarially determined pensions disclosure as prescribed by FRS 17.

Provisions

Provision is made where an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Specifically, provisions are made for onerous contracts (including contracts for property no longer occupied by the Group, lease dilapidations and other unavoidable contract losses) and actuarial deficits in defined benefit pension schemes arising on acquisition. Where liabilities extend over more than one year, they are discounted using appropriate government bond rates.

Leases

Where fixed assets are financed by leasing agreements which give rights approximately equivalent to ownership (finance lease), the assets are capitalised and depreciated accordingly. The corresponding lease commitments are treated as obligations to the lessor. All other lease payments are charged to the profit and loss account in the year to which they relate.

Derivative financial instruments

The Group enters into derivative instruments primarily to manage exposures to fluctuations in interest rates. Interest differentials under interest rate collar instruments are recognised on an accruals basis.

Notes to the Financial Statements
for the year ended 31st December 2003

1b International Financial Reporting Standards (IFRS)

In June 2002, the Council of the European Union adopted a Regulation requiring listed companies in its Member States to prepare their consolidated financial statements in accordance with International Accounting Standards from 2005. The Group's first financial results announcement prepared in accordance with IFRSs will be that for the first half of 2005. Its first Annual Report prepared under IFRSs will be that for the year ending 31 December 2005. The Group's project to convert its financial reporting from UK GAAP to IFRSs is commencing, and an evaluation of the impact on the Group's results, training and other necessary changes arising from these developments are currently being considered.

2 Prior Year Adjustment

The Group has made a prior year adjustment to book an additional deferred tax asset to reflect the full adoption of FRS 19. The additional deferred tax asset of £1,657,000 arose primarily on the acquisition of a subsidiary with a corresponding decrease of £1,257,000 in goodwill, the balance of £400,000 has been adjusted to opening reserves. In line with the reduction in the value of goodwill, the prior year goodwill amortisation charge has been reduced by £63,000, with a corresponding increase in opening reserves. The effect on continuing operations of fully implementing FRS19 was to increase profit after tax for the year by £51,000 (2002: £123,000).

3 *Segmental reporting*

The UK was the origin and destination of all the Group's turnover in both 2003 and 2002.

	Turnover	
	2003	2002
	£000	£000
Turnover by business activity		
Personnel	**299,299**	309,680
Services	**123,862**	173,015
Total	**423,161**	482,695

All turnover is derived from external customers.

	Total operating profit/(loss) before goodwill amortisation and exceptional items		Total operating profit/(loss)	
	2003	2002	**2003**	2002*
	£000	£000	**£000**	£000
Operating profit/(loss) by business activity				
Personnel	**29,366**	22,919	**26,177**	20,869
Services	**(576)**	14,381	**(5,785)**	(9,300)
Total	**28,790**	37,300	**20,392**	11,569

* As restated (note 2).

Central costs have all been allocated across the business segments on the basis of activity.

Turnover, cost of sales, gross profit, administrative expenses and operating profit are analysed between existing and acquired operations as follows:

	Continuing existing 2003 £000	**Continuing acquisitions 2003 £000**	**Total 2003 £000**	Total 2002* £000
Turnover	**403,944**	**19,217**	**423,161**	482,695
Cost of sales	**(306,887)**	**(12,370)**	**(319,257)**	(361,574)
Gross profit	**97,057**	**6,847**	**103,904**	121,121
Administrative expenses – ongoing	**(79,911)**	**(3,601)**	**(83,512)**	(91,452)
– exceptional items	–	–	–	(18,100)
Total administrative expenses	**(79,911)**	**(3,601)**	**(83,512)**	(109,552)
Operating profit	**17,146**	**3,246**	**20,392**	11,569

* As restated (note 2).

The contribution from acquisitions shown above and on the face of the profit and loss account reflects the contribution from businesses that were acquired during the year.

3 Segmental reporting continued

	Net operating assets/(liabilities)	
	2003	*2002**
	£000	£000
Analysis of net operating assets/(liabilities) by business activity		
Personnel	**87,864**	52,279
Services	**91,429**	93,482
Central	**(1,028)**	2,319
Total continuing operations	**178,265**	148,080

* As restated (note 2).

	2003	2002*
	£000	£000
Net assets per consolidated balance sheet	**88,921**	88,319
Net debt	**89,344**	59,761
Total net operating assets, including goodwill	**178,265**	148,080

* As restated (note 2).

All material operating assets were held in the United Kingdom in both 2003 and 2002.

4 Operating profit

	2003	2002
	£000	*£000*
Operating profit is stated after charging		
Depreciation	**5,418**	7,237
Amortisation of goodwill	**8,398**	7,631
Net loss on sale of tangible fixed assets	**331**	149
Auditors' remuneration – statutory audit	**410**	435
Operating lease rentals:		
Land and buildings	**4,859**	4,167
Plant and machinery	**172**	150

Remuneration of the Company's auditors in respect of other services amounted to £280,000 (2002: £680,000). This comprises £96,000 for tax compliance services, £119,000 for tax advisory services, £30,000 for valuation work, £23,000 for further assurance services and £12,000 for other services.

Auditors' remuneration in respect of the Company's audit amounted to £125,000 (2002: £126,000).

5 Exceptional items

Exceptional items within operating profit comprise:

	2003	2002
	£000	£000
Restructuring and integration costs	–	3,100
Impairment of goodwill and fixed assets	–	15,000
	–	18,100

In 2002, the decision was taken to restructure the Primary Care out-of-hours business by closing its head office and consolidating its call-handling function from 29 locations down to two national clinical response centres in England. Costs incurred in 2002 in respect of this project amounted to £3,100,000 and primarily comprised redundancy and other related costs. A tax credit of £846,000 arose on these restructuring costs.

5 Exceptional items continued

On 2nd July 2002, the DTI announced that it had awarded the MAP contract for the assessment of lung disease in coalminers to a third party. In the light of the loss of the contract, the Board reviewed the carrying value of goodwill associated with the acquisition of Healthcall and decided to write it down by £15,000,000.

	2003 £000	2002 £000
Exceptional items after operating profit comprise:		
(Loss)/gain on disposal of subsidiary undertaking	**(2,680)**	800

The exceptional loss, after operating profit, of £2,680,000 comprises the loss on the disposal of the Healthcall Optical business which forms part of the Services Division. At 31st December 2003, the Board had resolved to dispose of this business. Accordingly the goodwill and assets associated with this business were assessed resulting in the goodwill being adjusted to its expected recoverable value pending its disposal. No tax credit has been recognised in respect of this exceptional loss.

In 2002 the Group disposed of its 51% share of Hertford Medical International Limited for £1,210,000 (including £310,000 of estimated deferred consideration that is still to be received) realising a gain of £800,000. Deferred consideration of £260,000 was received in 2003. No tax charge was recognised in respect of this exceptional gain.

6 Employees

	2003 £000	2002 £000
Employee costs		
Wages and salaries	**56,425**	56,366
Social security costs	**4,920**	4,531
Other pension costs	**2,364**	2,649
	63,709	63,546

	2003	2002
Average number of persons employed		
Full-time	**2,001**	2,781
Part-time	**2,880**	2,738
	4,881	5,519
Employee numbers by business activity		
Personnel	**2,211**	2,823
Services	**2,670**	2,696
	4,881	5,519

7 Directors' emoluments

	2003 £000	2002 £000
Aggregate emoluments	**1,642**	1,744
Aggregate gains made on the exercise of share options	–	1,063
Company contributions to money purchase pension schemes	**79**	159
	1,721	2,966

The detailed numerical analysis of directors' remuneration is included in the tables in the Remuneration Report on pages 25 to 31 and forms part of these financial statements.

8 Net interest payable

	2003 £000	2002 £000
Unwinding of discount in provisions (note 22)	**(384)**	(419)
Amortisation of issue costs of bank loans	**(33)**	(64)
Interest payable on bank loans and overdrafts	**(3,697)**	(3,237)
Interest payable on other loans	**(31)**	(470)
Interest payable on finance leases	**(15)**	(98)
Total interest and similar charges payable	**(4,160)**	(4,288)
Bank interest and other investment income receivable	**50**	50
Net interest payable	**(4,110)**	(4,238)

9 Taxation

	2003 £000	2002* £000
UK Corporation Tax at 30.00% (2002 – 30.00%) on taxable profits for the year	**(6,010)**	(7,114)
Over provision in previous years	**1,678**	871
Current tax	**(4,332)**	(6,243)
Deferred tax	**(21)**	191
Tax on profit on ordinary activities	**(4,353)**	(6,052)

* As restated (note 2).

The effective current tax rate for the year is lower than the standard rate of corporation tax for the UK. The differences are explained below:

	2003 £000	2002 £000
Profit on ordinary activities at the standard rate of corporation tax at 30%	**(4,081)**	(2,441)
Items not deductible	**(199)**	(132)
Net goodwill amortisation and impairment not deductible	**(1,790)**	(3,680)
Timing differences	**100**	(741)
Losses not relievable	**(40)**	(120)
Over provision in previous years	**1,678**	871
Current tax charge for year	**(4,332)**	(6,243)

10 Profit for the year

The profit after tax for the year dealt with in the accounts of the Company amounts to £15,947,000 (2002: £252,447,000). As allowed by the provisions of Section 230 of the Companies Act 1985, the Company has not published its own profit and loss account.

11 Dividends

	2003 £000	2002 £000
Equity dividends paid		
Ordinary shares: 3.48p per share (2002 – 3.48p)	**3,046**	3,043
Equity dividends proposed		
Ordinary shares: 6.14p per share (2002 – 6.14p)	**5,381**	5,370
Total dividends: 9.62p per share (2002 – 9.62p)	**8,427**	8,413

12 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Earnings per share before goodwill amortisation and exceptional items have been calculated to show the impact of goodwill amortisation and exceptional items as these can have a distorting effect on earnings and therefore warrant separate consideration.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2003 Earnings £000	**2003 Weighted average number of shares thousand**	**2003 EPS pence**	2002* Earnings £000	2002* Weighted average number of shares thousand	2002* EPS pence
Basic earnings per share	**9,202**	**87,545**	**10.51p**	2,031	87,337	2.33p
Dilutive effect of options	**–**	**439**	***(0.05p)***	–	155	*(0.01)p*
Diluted earnings per share	**9,202**	**87,984**	**10.46p**	2,031	87,492	2.32p
Adjusted to exclude goodwill amortisation and exceptional items						
Basic earnings per share	**9,202**	**87,545**	**10.51p**	2,031	87,337	2.33p
Exceptional items (adjusted for taxation)	**2,680**	**–**	**3.06p**	16,454	–	18.84p
Goodwill amortisation	**8,398**	**–**	**9.60p**	7,631	–	8.73p
Adjusted basic earnings per share	**20,280**	**87,545**	**23.17p**	26,116	87,337	29.90p
Diluted earnings per share	**9,202**	**87,984**	**10.46p**	2,031	87,492	2.32p
Exceptional items (adjusted for taxation)	**2,680**	**–**	**3.05p**	16,454	–	18.81p
Goodwill amortisation	**8,398**	**–**	**9.54p**	7,631	–	8.72p
Adjusted diluted earnings per share	**20,280**	**87,984**	**23.05p**	26,116	87,492	29.85p

* As restated (note 2).

13 Intangible assets

	Goodwill £000
Group	
Cost	
At 1st January 2003	152,570
Prior year adjustment (note 2)	(1,257)
As restated	151,313
Additions (note 16)	34,114
At 31st December 2003	185,427
Aggregate amortisation	
At 1st January 2003	13,327
Prior year adjustment (note 2)	(63)
As restated	13,264
Charge for the year	8,398
Impairment (note 5)	2,680
At 31st December 2003	24,342
Net book value	
At 31st December 2003	161,085
At 31st December 2002 – restated	138,049

The goodwill arising on all acquisitions is being amortised on a straight-line basis over 20 years. This is the period over which the directors estimate that the value of the underlying businesses acquired in each case is expected to exceed the value of the underlying assets. In 2003, the directors have evaluated the carrying values of goodwill and with the exception of the impairment arising in the Healthcall Optical business pending its disposal, the directors believe that no additional impairment has arisen in the year.

The impairment relates to the exceptional loss, after operating profit, of £2,680,000 arising from the resolution to dispose of the Healthcall Optical business which forms part of the Services Division. At 31st December 2003, the Board had resolved to dispose of this *business. Accordingly the goodwill and assets associated with this business were assessed resulting in the goodwill being adjusted by* £2,680,000 to its expected recoverable value upon its disposal.

14 Tangible fixed assets

	Short term leasehold land & buildings £000	Plant & equipment, fixtures & fittings £000	Total £000
Group			
Cost			
At 1st January 2003	80	26,042	26,122
Additions	–	9,948	9,948
On acquisition of businesses and subsidiary undertakings	2	244	246
Disposals	–	(12,354)	(12,354)
At 31st December 2003	82	23,880	23,962
Depreciation			
At 1st January 2003	39	13,342	13,381
Disposals	–	(7,805)	(7,805)
Charge for the year	7	5,411	5,418
At 31st December 2003	46	10,948	10,994
Net book value			
At 31st December 2003	36	12,932	12,968
At 31st December 2002	41	12,700	12,741

At 31st December 2003, the net book value of assets held under finance leases, capitalised and included in plant and equipment, fixtures and fittings amounts to £14,000 (2002: £245,000). The depreciation charge on these assets during the year amounted to £231,000 (2002: £1,080,000).

During 2003, the Group sold the majority of its motor vehicle fleet for £2,968,000 and leased it back under a contract hire agreement which for accounting purposes has been treated as an operating lease.

	Plant & equipment, fixtures & fittings £000
Company	
Cost	
At 1st January 2003	1,276
Additions	136
Disposals	(1,125)
At 31st December 2003	287
Depreciation	
At 1st January 2003	525
Disposals	(410)
Charge for the year	114
At 31st December 2003	229
Net book value	
At 31st December 2003	58
At 31st December 2002	751

15 Capital commitments

	2003 £000	2002 £000
Capital expenditure that has been contracted but not provided for	**135**	3,676

16 Fixed asset investments

	Investment in own shares £000
Group	
At 1st January 2003	1
Sale of shares	(1)
At 31st December 2003	–

The investment in own shares at 1st January 2003 related to 1,645 shares held by the Group's Qualifying Employee Share Ownership Trust (QUEST). The Company established the QUEST to acquire new shares in the Company for the benefit of the employees and directors of the Group. The remaining shares were sold during the year to employees exercising share options under the Group's Save as You Earn Scheme.

	Investment in *own shares* £000	Investment *in subsidiaries* £000	*Total* £000
Company			
At 1st January 2003	1	33,249	33,250
Sale of shares	(1)	–	(1)
At 31st December 2003	–	33,249	33,249

Except where stated, the following subsidiary companies are wholly-owned including 100% of the voting rights, operate in the United Kingdom and are registered in England & Wales. All companies have been included in the consolidated results of the Group.

Principal undertakings

Undertaking	Business
Nestor Primecare Services Limited [1]	UK healthcare services and flexible staffing services in UK health and social care
Care Monitoring 2000 Limited [2]	*UK homecare remote monitoring*
Holt Medical Recruitment Limited [1]	UK medical recruitment agency
New Horizons Limited [1]	Flexible staffing in UK social care

[1] The interest of Nestor Healthcare Group plc is held through intermediate holding companies.
[2] Nestor Healthcare Group plc has a 51% interest.

Related party transactions

Neither the Group nor the Company had any material transactions with related parties during the year. Details of transactions with directors are set out in the Remuneration Report on pages 25 to 31.

16 Fixed asset investments continued

Business acquisitions

The Group purchased 16 companies, 10 businesses and the remaining 49% of Cleveland Healthcall Services Limited during the year for a total consideration of £36,625,000. All of these purchases have been accounted for as acquisitions. The most significant acquisitions were of Holt Medical Recruitment Limited ("Holt") and New Horizons Limited ("New Horizons"). The remaining acquisitions have not been separately analysed as individually their contribution to goodwill is not material.

The provisional fair value of assets and liabilities acquired in the year which represent their book values, and the goodwill arising are outlined in the table below. These will be finalised in the 2004 financial statements when detailed reviews of businesses acquired towards the end of the year are completed:

	Holt £000	*New Horizons* £000	*Other* £000	*Total* £000
Fixed assets	37	31	178	246
Current assets and liabilities				
Debtors and prepayments	1,759	536	3,099	5,394
Creditors and accruals	(801)	(218)	(2,776)	(3,795)
Net (overdraft)/cash	*(162)*	*36*	*1,689*	*1,563*
Net current assets	796	354	2,012	3,162
Creditors – amounts falling due after more than one year	(5)	–	(9)	(14)
Minority interests	–	–	350	350
Net assets acquired	828	385	2,531	3,744
Purchase consideration	9,250	3,950	23,425	36,625
Costs of acquisition	124	–	1,109	1,233
Total cost	9,374	3,950	24,534	37,858
Total goodwill arising in year (note 13)	8,546	3,565	22,003	34,114

Cash flows in respect of purchase of businesses

	Total **£000**
Total cost	37,858
Deferred and retained consideration	(6,750)
Total cash expended on purchase of businesses	31,108
Net cash acquired	(1,563)
Net cash flows in respect of purchase of businesses	29,545

The deferred consideration is contingent on the future performance of acquired businesses.

From the date of acquisition to 31st December 2003, acquired businesses contributed £19,217,000 to turnover (including Holt – £3,856,000, New Horizons – £152,000) and £4,076,000 to profit before interest and goodwill amortisation (including Holt – £407,000, New Horizons – £58,000).

In the year ended 31st July 2003, the last full financial year prior to acquisition, Holt reported profit after tax of £811,000. For the period 1st August 2003 to 30th September 2003, Holt reported profit after tax of £401,000.

In the year ended 31st December 2002, the last full financial year prior to acquisition, New Horizons reported profit after tax of £141,000. For the period 1st January 2003 to 19th December 2003, New Horizons reported profit after tax of £303,000.

17 Debtors

	Group		Company	
	2003	2002*	**2003**	2002
	£000	£000	**£000**	£000
Trade debtors	**41,835**	44,955	**–**	–
Amounts owed by Group companies	**–**	–	**442,329**	433,273
Dividends receivable from Group companies	**–**	–	**22,000**	–
Other debtors	**1,734**	2,991	**618**	838
Deferred tax receivable within one year	**450**	125	**5**	–
Prepayments and accrued income	**14,699**	7,992	**193**	290
Debtors receivable after more than one year	**58,718**	56,063	**465,145**	434,401
Deferred tax receivable after more than one year	**2,778**	3,124	**–**	–
Total Debtors	**61,496**	59,187	**465,145**	434,401

Deferred tax

At 31st December 2003, the Group has an overall deferred tax asset position arising mainly from the recognition of a pension liability and from the deferral of claims for capital allowances. The deferred tax asset is shown as part of debtors. No recognition has been given to the carry forward of certain losses available for future tax relief as their recovery is not considered certain. The total recognised deferred tax asset is as follows:

	2003	2002*
	£000	£000
Pension liability	**1,331**	1,412
Accelerated capital allowances	**1,618**	1,359
Losses	**291**	302
Other	**243**	478
Total potential deferred tax asset	**3,483**	3,551
Less: losses not relievable	**(255)**	(302)
Total recognised deferred tax asset	**3,228**	3,249

* As restated (note 2).

The deferred tax asset included in the 2002 annual report was £1,592,000. This has been increased by the prior year adjustment of £1,657,000 (see note 2). The movement in the balance during 2003 reflects the transfer to the tax charge of £21,000.

18 Creditors – amounts falling due within one year

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Bank overdraft and loans	**851**	2,765	**19,837**	9,326
Loan other than from banks	**1,407**	5,699	**1,407**	4,049
Finance leases	**14**	493	**–**	–
Trade creditors	**8,102**	11,655	**–**	–
Amounts owed to Group companies	**–**	–	**19,876**	33,247
Dividends proposed (note 11)	**5,381**	5,370	**5,381**	5,370
Corporation tax	**3,495**	4,098	**–**	–
Other tax and social security	**5,899**	8,876	**–**	–
Other creditors	**10,227**	8,288	**982**	918
Accruals and deferred income	**16,796**	14,918	**662**	1,495
	52,172	62,162	**48,145**	54,405

19 Creditors – *amounts falling due after more than one year*

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Bank loan	**90,000**	60,000	**90,000**	60,000
Other creditors	**4**	51	–	–
	90,004	60,051	**90,000**	60,000

20 Net borrowings

	Interest rates	Group		Company	
		2003 £000	2002 £000	**2003 £000**	2002 £000
Unsecured					
Bank overdraft and loans	variable	**(90,851)**	(62,765)	**(109,837)**	(69,326)
Loan other than from banks	variable	**(1,407)**	(5,699)	**(1,407)**	(4,049)
Finance leases		**(14)**	(493)	**–**	–
Total borrowings		**(92,272)**	(68,957)	**(111,244)**	(73,375)
Cash at bank and in hand		**2,928**	9,196	**1,318**	119
Net borrowings		**(89,344)**	(59,761)	**(109,926)**	(73,256)

Net borrowings for the Group is summarised as follows:

	Repayable within *1 year* £000	**Repayable between *1 and 2 years* £000**	**Repayable between *2 and 5 years* £000**	***Total* £000**
Unsecured				
Bank overdraft and loans	(851)	–	(90,000)	(90,851)
Loan other than from banks	(1,407)	–	–	(1,407)
Finance leases	(14)	–	–	(14)
Total borrowings	(2,272)	–	(90,000)	(92,272)
Cash at bank and in hand	2,928	–	–	2,928
At 31st December 2003	656	–	(90,000)	(89,344)
At 31st December 2002	239	–	(60,000)	(59,761)

21 Financial instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities is set out in the Financial Review on page 14. Short-term debtors and creditors have been excluded from all the following disclosures.

Interest rate profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31st December 2003 was:

	Floating rate financial liabilities £000	Financial liabilities on which no interest paid £000	Total £000
At 31st December 2003 – all sterling	95,216	4	95,220
At 31st December 2002 – all sterling	72,891	51	72,942

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to their short-term nature or because they do not meet the definition of a financial liability, such as tax balances.

Included within floating rate financial liabilities are £35 million (2002: £35 million) of borrowings upon which the Group has entered into an interest rate collar that has the effect of restricting LIBOR rates on those borrowings to between 4.0% and 5.6% between November 2002 and November 2006. The net fair value of these swaps at 31st December 2003 was £86,000 (2002: £nil).

Included in the above are the Group's provisions of £2,944,000 (2002: £3,934,000) for onerous contracts (note 22) which meet the definition of financial liabilities. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been discounted and the discount rate is re-appraised at each half yearly reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability. Other floating rate financial liabilities bear interest at rates, based on LIBOR, which are fixed in advance for periods of between one month and six months.

The weighted average period to maturity of financial liabilities that bear no interest at 31st December 2003 was 1.5 years (2002 – 1.5 years).

Interest rate profile of financial assets

The interest rate profile of the Group's financial assets at 31st December 2003 was:

	Floating rate financial assets £000	Financial assets *on which* no interest received £000	Total £000
Sterling	2,878	13	2,891
Australian dollars	–	23	23
New Zealand dollars	–	14	14
At 31st December 2003	2,878	50	2,928
Sterling	9,114	56	9,170
Australian dollars	–	4	4
New Zealand dollars	–	18	18
US dollars	–	4	4
At 31st December 2002	9,114	82	9,196

The financial assets comprise loan notes, bank deposits, bank current account balances and cash in hand. The floating rate financial assets earn interest at rates based on relevant national LIBOR equivalents and are all recoverable within one year or on demand. The financial assets on which no interest is received are balances on bank current accounts and cash in hand.

21 Financial instruments continued

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31st December 2003 was:

	Debts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	2,272	904	3,176
Between 1 and 2 years	–	281	281
Between 2 and 5 years	90,000	886	90,886
Over 5 years	–	877	877
At 31st December 2003	92,272	2,948	95,220

	Debts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	8,957	1,201	10,158
Between 1 and 2 years	–	418	418
Between 2 and 5 years	60,000	1,131	61,131
Over 5 years	–	1,235	1,235
At 31st December 2002	68,957	3,985	72,942

Other financial liabilities include the provision for onerous contracts of £2,944,000 (2002: £3,934,000).

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date:

	2003 £000	2002 £000
Expiring within 1 year	–	–
Expiring between 1 and 2 years	–	–
Expiring in more than 2 years	**3,593**	29,301
	3,593	29,301

All the above facilities incur commitment fees at market rates.

Fair values of financial assets and financial liabilities

The following table shows a comparison between the carrying amounts and the fair values of the Group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. For floating rate financial assets and liabilities, fair values approximate to book values.

	2003		2002	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial assets	**2,928**	**2,928**	9,196	9,196
Short-term financial liabilities and current portion of long-term borrowings	**(2,272)**	**(2,272)**	(8,957)	(8,957)
Long-term borrowings	**(90,000)**	**(90,000)**	(60,000)	(60,000)
Other financial liabilities	**(2,948)**	**(2,948)**	(3,985)	(3,985)
	(92,292)	**(92,292)**	(63,746)	(63,746)

22 Provision for liabilities and charges

	Pensions £000	Onerous contracts £000	Deferred tax (note 17) £000	Total £000
Group				
At 1st January 2003	4,708	3,934	–	8,642
Transfer to profit and loss account	–	(90)	–	(90)
Utilised in the year	(500)	(1,137)	–	(1,637)
Acquired with businesses	–	81	–	81
Unwinding of discount	228	156	–	384
At 31st December 2003	4,436	2,944	–	7,380
Company				
At 1st January 2003	–	1,123	17	1,140
Transfer to profit and loss account	–	(213)	(22)	(235)
Utilised in the year	–	(57)	–	(57)
Unwinding of discount	–	60	–	60
Transfer to debtors	–	–	5	5
At 31st December 2003	–	913	–	913

Pensions

Following the acquisition of Healthcall in 2001 and as part of the process for finalising the provisional fair value of the assets and liabilities acquired, an actuarial deficit on the Healthcall pension fund was recognised on a discounted basis using appropriate government bond rates.

Onerous contracts

The provision for onerous contracts comprises £2,383,000 (2002: £3,298,000) in respect of lease contracts for property no longer occupied by the Group (Company 2003 – £913,000; 2002 – £1,123,000), £442,000 in respect of lease dilapidations and £119,000 in respect of other unavoidable contract losses that are expected to crystallise in 2004.

The Group has a number of properties that are either vacant or under-let at a discount. Full provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant agreements for the remaining period of the leases, which at 31st December 2003 is an average of approximately 8 years. In determining the provision for onerous contracts, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates.

23 Share capital

	Authorised		Allotted, issued and fully paid	
	Number	£000	Number	£000
Ordinary shares of 10p each				
At 1st January 2003	96,000,000	9,600	87,465,660	8,747
Issued during the year	–	–	165,765	16
At 31st December 2003	96,000,000	9,600	87,631,425	8,763

The shares issued during the year were issued for cash consideration of £216,000 to employees exercising share options under share option schemes.

24 Share premium account and reserves

	Share premium account £000	Other reserves £000	Profit & loss account £000
Group			
At 1st January 2003			
As previously reported	43,022	864	34,902
Prior year adjustment (note 2)	–	–	463
As restated	43,022	864	35,365
Profit for the year	–	–	9,202
Dividends	–	–	(8,427)
Issue of shares	200	–	–
At 31st December 2003	43,222	864	36,140

At 31st December 2003, goodwill written off directly against profit and loss reserves in respect of subsidiaries and associated undertakings still held by the Group was £16,891,000 (31st December 2002 – £16,891,000).

	Share premium account £000	Other reserves £000	Profit & loss account £000
Company			
At 1st January 2003	43,022	25,750	275,457
Profit for the year (note 10)	–	–	15,947
Dividends	–	–	(8,427)
Issue of shares	200	–	–
At 31st December 2003	43,222	25,750	282,977

Included in other reserves are £21,512,000 of distributable reserves relating to foreign exchange and acquisition reserves and £4,238,000 of non-distributable reserves.

25 Notes to the cash flow statement

	2003 £000	2002* £000
Reconciliation of operating profit to net cash inflow from operations		
Operating profit	**20,392**	11,569
Exceptional items	–	18,100
Amortisation of goodwill	**8,398**	7,631
Depreciation	**5,418**	7,237
Net profit on sale of tangible fixed assets	**331**	149
Decrease in provisions	**(1,646)**	(1,778)
Decrease in debtors	**2,607**	11,563
Decrease in creditors	**(10,510)**	(327)
Net cash inflow from operating activities	**24,990**	54,144

* As restated (note 2).

	2003 £000	2002 £000
Reconciliation of net cash flow to movement in net debt		
Decrease in cash and increase in overdraft	**(4,354)**	5,185
Decrease in finance leases	**479**	1,425
(Increase)/decrease in loans	**(25,708)**	8,979
	(29,583)	15,589
Net debt at 1st January 2003	**(59,761)**	(75,350)
Net debt at 31st December 2003	**(89,344)**	(59,761)

25 Notes to the cash flow statement continued

	Loans and finance leases repayable in less than one year £000	Loans and finance leases repayable in more than one year £000	Overdraft £000	Cash £000	Total £000
Analysis of movements in loans and cash balances					
At 1st January 2003	(6,192)	(60,000)	(2,765)	9,196	(59,761)
Increase in loans and net cash outflow	4,771	(30,000)	1,914	(6,268)	(29,583)
At 31st December 2003	(1,421)	(90,000)	(851)	2,928	(89,344)

26 Operating lease commitments

The Group has numerous premises operated under leases whose terms, conditions and expiry dates vary considerably, some of which are no longer occupied by the Group. In addition, the Group leases items of plant and equipment and in particular has entered into a *contract hire agreement to lease motor vehicles.*

The commitment in respect of operating leases in 2004 is as follows:

	Plant *and* equipment including motor vehicles £000	*Land &* buildings occupied by Group £000	*Land &* buildings not occupied by Group £000	Total £000
For leases expiring				
within one year	497	1,569	55	2,121
between two and five years	903	836	9	1,748
beyond five years	–	1,864	487	2,351
	1,400	4,269	551	6,220

27 Contingent liabilities

In 1993, CCHP Inc (a partner in the Cross Country Staffing ("CCS") partnership and a subsidiary of WR Grace & Co ("Grace")) commenced a programme of providing tax-free meal and lodging benefits ("Travel Benefits") to the travelling nurses it employed. Such benefits were also provided to nurses employed by CCS following the establishment of the CCS partnership by CCHP and MRA Staffing Services Inc. (a former subsidiary of the Group) on 1st July 1996. The portion of the programme providing meal reimbursements was terminated on 1st June 1999 and applied to all contracts with nurses entered into prior to 1st June 1999.

In November 1998, the Internal Revenue Service of the US (the IRS) issued a payroll tax assessment of US$21.8 million for unpaid payroll tax in relation to the Travel Benefits provided to nurses for the 1993 to 1995 tax years of CCHP which were in the process *of being reviewed by the IRS. On 23rd March 1999, CCHP filed a claim against the IRS in the United States Court of Federal Claims* protesting this assessment.

At the time of the Group's disposal of CCS, in June 1999, CCHP and the Group received advice from legal advisors in the United States that CCHP should succeed in opposing this assessment, or be able to settle the case for a significantly lower sum in relation to all tax years during which the programme operated. The Group's liability in the event of such a settlement would be limited to amounts relating to the period since 1st July 1996 (being the date of establishment of the CCS partnership) and, taking this into account, the Group's share of any liability would be approximately 22%, with Grace being liable for substantially all of the remaining share.

In April 2001, Grace and its subsidiaries filed for bankruptcy. Attempts to settle the case have been ongoing and, on 17th February 2004, CCHP and CCS submitted a written offer to the US Department of Justice, containing their proposal to settle all claims for a cash *sum of US$13.0 million. This offer is subject to approval of the Federal Bankruptcy Court administering Grace's bankruptcy proceedings* but the Group has received advice that the Department of Justice is minded to accept the settlement terms so offered. Were the offer to be so accepted and approved by the Bankruptcy Court the Group's exposure is believed to be approximately US$2.9 million.

Based upon the conditionality of the offer made, the directors do not believe it is appropriate to make any provision in the financial statements at this stage.

28 Pension commitments

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) are those required by that standard. FRS 17 Retirement Benefits was issued in November 2000 but will not be mandatory for the Group and company until the year ending 31st December 2005. Prior to this, phased transitional disclosures are required.

a) Group pension schemes

The Group operates two funded pension schemes providing benefits based on final pensionable salary. The two schemes are the Nestor Healthcare Group Retirement Benefits Scheme (the Nestor Scheme) and the Healthcall Group Limited Pension Scheme (the Healthcall Scheme). Both schemes are closed to new members. The schemes are administered by Trustees separately from the affairs of the Group and are contracted out of the additional component of the State Pension Scheme.

Nestor Scheme

Watson Wyatt LLP, consulting actuaries, carried out an actuarial valuation of the Nestor Scheme as at 5th April 2003. On the actuarial basis used, as at that date, the assessed value of the assets was 62% of the value placed on the liabilities in respect of benefits earned to 5th April 2003, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity.

The market value of the investments held in the Nestor Scheme as at the valuation date was £9,923,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 2.5% per annum.

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 2.0% per annum relative to price inflation for pensioners and 5.0% per annum before retirement and 3.0% per annum after retirement for non-pensioners. Pensionable earnings were assumed to increase on average at a rate of 2% per annum ahead of price inflation with promotional increases assumed in addition.

The employer's contribution rate, currently 22.4% (32.4% for certain current and past executive directors), is calculated using the projected unit method and the shortfall of assets as at 5th April 2003 is amortised as a constant percentage of members' pensionable earnings over the average expected working lifetime of the active members. As the Nestor Scheme is closed to new members, under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement.

Healthcall Scheme

Watson Wyatt LLP, consulting actuaries, carried out an actuarial valuation of the Healthcall Scheme as at 1st November 2001. On the actuarial basis used, as at that date, the assessed value of the assets was 51% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity.

The market value of the investments held in the scheme as at the valuation date was £5,346,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 2.3% per annum.

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 3.0% per annum relative to price inflation for pensioners and 4.0% per annum before retirement and 3.0% per annum after retirement for non-pensioners. Pensionable earnings were assumed to increase on average at a rate of 2.0% per annum ahead of price inflation.

The employer's contribution rate, currently 21%, is calculated using the projected unit method and the shortfall of assets as at 1st November 2001 is amortised as annual payments of £500,000 over the average remaining expected service lives of the active members. As the Healthcall scheme is closed to new members, under the projected unit method, the employer's contribution rate will increase as the members of that scheme approach retirement.

Pension charge

The pension charge for the year was £2,364,000 (2002: £2,649,000).

At 31st December 2003, there was a net pension liability of £4,436,000 (2002: £4,708,000) included within provisions. This relates to the formal valuation of the Healthcall Scheme as at the date of acquisition, adjusted for subsequent movements. This liability is expected to be satisfied by the annual payments of £500,000 up to 2015 as referred to above.

28 Pension commitments *continued*

b) FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the results of an actuarial valuation of the Nestor Scheme as at 5th April 2003 and on the last formal actuarial valuation of the Healthcall Scheme as at 1st November 2001 and updated by Watson Wyatt LLP to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31st December 2003. Assets of the schemes are stated at their market valuation at 31st December 2003.

The financial assumptions used to calculate the schemes' liabilities under FRS 17 are:

	31st December 2003	31st December 2002	31st December 2001
Valuation method	**Projected unit**	Projected unit	Projected unit
Discount rate	**5.50%**	5.75%	6.00%
Inflation rate	**2.75%**	2.25%	2.50%
Increases to pensions in payment and deferred pensions*	**2.75%**	2.25%	2.50%
Salary increases	**4.75%**	4.25%	4.50%

* Different increases assumed for certain elements of pension

The assets in the schemes and the expected rate of return were:

	Long-term rate of return expected on 31st December 2003	**Value at 31st December 2003 £000**	Long-term rate of return expected on 31st December 2002	Value at 31st December 2002 £000	Long-term rate of return expected on 31st December 2001	Value at 31st December 2001 £000
Equities	**8.0%**	**17,171**	8.0%	11,590	7.75%	13,152
Bonds	**5.0%**	**1,993**	5.0%	2,276	5.5%	2,106
Other	**4.0%**	**604**	4.0%	896	4.0%	1,311
Total market value of assets		**19,768**		14,762		16,569
Present value of schemes' liabilities		**(35,439)**		(27,535)		(22,230)
Deficit in the schemes – pension liabilities		**(15,671)**		(12,773)		(5,661)

The movement in the deficit in the schemes during the year was:

	31st December 2003 £000	31st December 2002 £000
Deficit in the schemes at beginning of year	**(12,773)**	(5,661)
Contributions paid	**2,355**	1,793
Current service cost	**(1,635)**	(1,623)
Other finance charge	**(465)**	(120)
Actuarial loss	**(3,153)**	(7,162)
Deficit in the schemes at end of year	**(15,671)**	(12,773)

As stated on page 58, a provision has been made for the deficit on the Healthcall scheme as of the date of acquisition. Therefore, the net effect on the Group's net assets and profit and loss reserves of the deficit in the schemes' assets would be:

	2003 *Group* £000	2002* *Group* £000
Net assets		
Net assets	**88,921**	88,319
Add: existing accrued pension liability	**4,436**	4,708
Deferred tax on existing accrued pension liability	**(1,331)**	(1,412)
Less: total pension liabilities	**(15,671)**	(12,773)
Deferred tax on total pension liabilities	**4,701**	3,832
Net assets including pension liabilities	**81,056**	82,674

* As restated (note 2).

28 Pension commitments *continued*

	2003 Group £000	2002* Group £000
Reserves		
Profit and loss reserve	**36,140**	35,365
Add: existing accrued pension liability	**4,436**	4,708
Deferred tax on existing accrued pension liability	**(1,331)**	(1,412)
Less: total pension liabilities	**(15,671)**	(12,773)
Deferred tax on total pension liabilities	**4,701**	3,832
Profit and loss reserve including pension liabilities	**28,275**	29,720

* As restated (note 2).

Components of defined benefit cost for the year ended 31st December 2003

Analysis of amounts that would be charged to operating profit	2003 *Group* £000	2002 *Group* £000
Current service cost	**1,635**	1,623
Analysis of amounts that would be charged to other finance income		
Interest on pension scheme liabilities	**1,619**	1,382
Expected return on assets in the pension scheme	**(1,154)**	(1,262)
Net charge to other finance income	**465**	120
Total profit and loss charge before deduction for tax	**2,100**	1,743

Analysis of the amounts that would be recognised in statement of total recognised gains and losses	2003 Group £000	2002 Group £000
Actual return less expected return on scheme assets	**1,834**	(4,691)
Experience gains and losses arising on the scheme liabilities	**(112)**	(440)
Changes in the assumptions underlying the present value of the scheme liabilities	**(4,875)**	(2,031)
Actuarial loss recognised in statement of total recognised gains and losses	**(3,153)**	(7,162)

History of experience gains and losses	2003 Group	2002 Group
Difference between the actual and expected return of scheme assets:		
Amount (£'000)	**1,834**	(4,691)
Percentage of scheme assets	**9.3%**	(31.8%)
Experience gains and (losses) on scheme liabilities:		
Amount (£'000)	**(112)**	*(440)*
Percentage of present value of scheme liabilities	**(0.3%)**	(1.6%)
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	**(3,153)**	(7,162)
Percentage of present value of scheme liabilities	**(8.9%)**	(26.0%)

29 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year. Share options in issue expire after a certain time and exercise dates vary. Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years. In addition, achievement of performance targets is normally required in all schemes except the SAYE scheme.

	Date of issue	Option price (pence)	In issue 1st Jan 2003	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 2003
Company Share Option Plan 1996							
	April 1998	236.50	15,575	–	(10,914)	–	4,661
	October 1998	339.50	4,602	–	–	–	4,602
	April 1999	407.50	37,169	–	–	(15,457)	21,712
	October 1999	596.50	31,569	–	–	(4,694)	26,875
	May 2000	425.00	268,634	–	–	(54,884)	213,750
	August 2000	429.50	20,952	–	–	(13,968)	6,984
	November 2000	472.50	6,349	–	–	–	6,349
	March 2001	542.50	57,875	–	–	(6,248)	51,627
	October 2001	510.00	64,702	–	–	(17,646)	47,056
	April 2002	544.00	11,028	–	–	–	11,028
			518,455	–	(10,914)	(112,897)	394,644
Employee Share Option Scheme 1996							
	November 1996	115.00	88,000	–	(88,000)	–	–
	April 1998	236.50	88,038	–	–	(24,351)	63,687
	April 1999	407.50	68,188	–	–	(20,630)	47,558
	October 1999	596.50	2,850	–	–	–	2,850
	May 2000	425.00	423,388	–	–	(74,494)	348,894
	August 2000	429.50	19,093	–	–	(12,108)	6,985
	November 2000	472.50	46,561	–	–	–	46,561
	March 2001	542.50	265,495	–	–	(56,265)	209,230
	October 2001	510.00	151,811	–	–	(62,378)	89,433
	April 2002	544.00	39,522	–	–	–	39,522
			1,192,946	–	(88,000)	(250,226)	854,720
Share Option Plan 2002							
	July 2002	267.50	886,900	–	(4,345)	(152,422)	730,133
	October 2002	212.50	322,352	–	–	–	322,352
	June 2003	273.50	–	112,248	–	–	112,248
	November 2003	301.00	–	304,500	–	–	304,500
			1,209,252	416,748	(4,345)	(152,422)	1,469,233
Savings Related Share Option Scheme							
	December 1997	131.00	66,355	–	(63,197)	(3,158)	–
	December 1998	305.00	22,223	–	(5,081)	(1,215)	15,927
	September 1999	412.00	55,396	–	–	(48,521)	6,875
	April 2001	447.20	116,735	–	–	(72,244)	44,491
	April 2002	454.80	276,792	–	–	(177,105)	99,687
	April 2003	157.12	–	891,761	(954)	(72,620)	818,187
			537,501	891,761	(69,232)	(374,863)	985,167
Total			**3,458,154**	**1,308,509**	**(172,491)**	**(890,408)**	**3,703,764**

Five Year Summary

	1999 £000	2000 £000	2001 £000	2002* £000	**2003 £000**
Group profit and loss account					
Turnover (including share of associated undertaking)					
Continuing operations	277,445	292,802	400,965	482,695	**423,161**
Discontinued operations	22,673	–	–	–	–
	300,118	292,802	400,965	482,695	**423,161**
Less: Share of turnover of associated undertaking	(22,673)	–	–	–	–
Turnover	277,445	292,802	400,965	482,695	**423,161**
Operating profit					
Continuing operations	10,274	17,124	21,629	29,669	**20,392**
Share of operating profit of associated undertaking (discontinued operations)	2,704	–	–	–	–
	12,978	17,124	21,629	29,669	**20,392**
Exceptional items	(5,206)	(727)	(4,574)	(17,300)	**(2,680)**
Profit on ordinary activities before interest	7,772	16,397	17,055	12,369	**17,712**
Net interest	(521)	425	(1,544)	(4,238)	**(4,110)**
Profit before taxation	7,251	16,822	15,511	8,131	**13,602**
Taxation	(4,274)	(5,190)	(6,013)	(6,052)	**(4,353)**
Profit after taxation	2,977	11,632	9,498	2,079	**9,249**
Equity minority interests	(55)	(158)	(19)	(48)	**(47)**
Profit attributable to shareholders	2,922	11,474	9,479	2,031	**9,202**
Profit before taxation, goodwill, amortisation and exceptional items	13,035	18,759	23,916	33,062	**24,680**
Basic earnings per share – FRS 3 basis	3.76p	14.63p	11.55p	2.33p	**10.51p**
Basic earnings per share – before goodwill amortisation and exceptional items	11.21p	17.10p	20.54p	29.90p	**23.17p**
Dividends per share	5.58p	6.69p	8.02p	9.62p	**9.62p**

* 2002 has been restated to reflect the full adoption of FRS 19 as described in note 2. 1999-2001 have not been restated as it is not practicable to determine the impact of FRS 19 with sufficient accuracy.

	1999 £000	2000 £000	2001 £000	2002* £000	2003 £000
Group balance sheet					
Goodwill	21,337	31,428	152,507	138,049	**161,085**
Tangible fixed assets	7,724	7,776	13,512	12,741	**12,968**
Investments	772	28	28	1	**-**
Total fixed assets	29,833	39,232	166,047	150,791	**174,053**
Current assets	40,961	40,926	66,024	59,187	**61,496**
Liabilities and provisions	(31,953)	(36,247)	(63,131)	(61,898)	**(57,284)**
Net operating assets	38,841	43,911	168,940	148,080	**178,265**
Net cash/(borrowings)	7,089	8,929	(75,350)	(59,761)	**(89,344)**
Net assets	45,930	52,840	93,590	88,319	**88,921**
Share capital	7,814	7,853	8,708	8,747	**8,763**
Share premium account	3,620	4,868	42,298	43,022	**43,222**
Other reserves	34,545	39,788	42,271	36,229	**37,004**
Equity shareholders' funds	45,979	52,509	93,277	87,998	**88,989**
Equity minority interests	(49)	331	313	321	**(68)**
	45,930	52,840	93,590	88,319	**88,921**
Group cash flow statement					
Net cash inflow from operating activities before exceptional items	8,928	23,760	24,648	54,144	**24,990**
Cash flow from exceptional items	–	–	(2,246)	(2,300)	**(1,899)**
Dividends received from associated undertakings	1,209	–	–	–	–
Interest (paid)/received	(471)	510	(964)	(3,896)	**(3,744)**
Tax paid	(4,265)	(3,776)	(6,268)	(6,240)	**(5,711)**
Capital expenditure	(4,147)	(2,365)	(4,523)	(6,743)	**(5,730)**
Acquisitions and disposals	23,441	(11,867)	(124,934)	(12,640)	**(29,285)**
Equity dividends paid	(3,868)	(4,674)	(5,883)	(7,499)	**(8,420)**
Issue of shares	850	275	38,285	763	**216**
Increase/(decrease) in loans	(1,520)	(60)	69,679	(10,404)	**25,229**
Increase/(decrease) in cash	20,157	1,803	(12,206)	5,185	**(4,354)**

* 2002 has been restated to reflect the full adoption of FRS 19 as described in note 2. 1999-2001 have not been restated as it is not practicable to determine the impact of FRS 19 with sufficient accuracy.

Shareholder Information

Financial calendar

Announcement of 2004 results (provisional)

For the half-year	August 2004
For the year	March 2005
Annual Report and Accounts circulated	April 2005
Annual General Meeting	May 2005

Dividends

Proposed final dividend 2003	
Announcement	1st March 2004
Ex-dividend	5th May 2004
Record date	7th May 2004
Payment date	4th June 2004
Interim dividend 2004 (provisional)	
Announcement	August 2004
Payment	October 2004

Analysis of shareholdings

At the date of this report the Company has 1,556 shareholders who hold 87,631,463 ordinary shares between them, analysed as follows:

Size of holding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–5,000	1,220	78	1,332,852	1
5,001–50,000	212	14	3,377,197	4
50,001–100,000	25	2	1,738,667	2
100,001 and over	99	6	81,182,747	93
	1,556	100	87,631,463	100

Type of shareholder				
Individuals	931	60	2,183,059	3
Nominee companies*	564	36	74,838,169	85
Other corporate and public bodies	48	3	4,236,516	5
Trust companies	13	1	6,373,719	7
	1,556	100	87,631,463	100

* This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts.

Share Registrar

The Company's registrar is Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

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